THE FREEMAN

IDEAS ON LIBERTY

A Good Conversation and the Marketplace

Rights, Freedom, and Rivalry

The Flat Tax: Simplicity Desimplified

What Is Multiculturalism?

OCTOBER 1996

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

NEW FROM FEE !

The Social Security Fraud

BY ABRAHAM ELLIS
with a new introduction by Hans F. Sennholz

"The entire story. . . told truthfully and in detail. . . ."
—Human Events

Polls show that more young Americans believe in UFOs than believe that they will receive Social Security benefits. Even the generous estimates of the government's own statisticians indicate that by the year 2030 the Trust Fund will be bankrupt. Attorney Abraham Ellis brilliantly dissects the inherent problems surrounding America's present Social Security system and offers a promising alternative of privatization.

However, Ellis does more than just tackle the Social Security dilemma. He discusses the ramifications of the "something-for-nothing philosophy" that afflicts modern America. According to the *Manchester Union Leader*, ***The Social Security Fraud*** "should give every American pause as it strips the Welfare State bare."

This new edition contains a new introduction by FEE president Hans F. Sennholz. It has a new index, as well as a new afterword by the author, in which he examines the advantages of privatization of the system.

Published by
The Foundation for Economic Education, Inc.
30 South Broadway, Irvington-on-Hudson, NY 10533

ISBN 1-57246-053-9 • 208 pages • paperback $14.95
Available in bookstores nationally, or call (800) 452-3518

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

October 1996 Vol. 46, No. 10

THE FREEMAN

IDEAS ON LIBERTY

FEATURES

652 **Classical Libertarian Compromises on State Education** *by Edwin G. West*
Inconsistencies in the writings of Tom Paine, Adam Smith, and John Stuart Mill.

658 **The Vatican and the Free Market** *by John C. Goodman*
The Catholic Church and pro-free enterprise intellectuals find common ground.

663 **A Good Conversation and the Marketplace** *by Candace A. Allen and Dwight R. Lee*
Market prices speak louder than words.

667 **Rights, Freedom, and Rivalry** *by Charles W. Baird*
Avoiding a semantic trap.

670 **The Flat Tax: Simplicity Desimplified** *by Roger W. Garrison*
There ain't no such thing as a big simple tax.

674 **Cutting Marginal Tax Rates: Evidence from the 1920s** *by Gene Smiley*
A lesson from history.

678 **Government's Hostile Takeover** *by Raymond J. Keating*
How confiscatory estate taxes destroy wealth.

682 **Why Some Federal Jobs Should Be Abolished** *by Tibor R. Machan*
A rationale for reducing a payroll financed by plunder.

684 **What Is Multiculturalism?** *by Eric Mack*
Unmasking the dangers of politicized cultural relativism.

687 **The Bright Side of Failure** *by Matthew Ragan and Walter Block*
The detrimental effects of governmental attempts to promote success.

691 **Individual Happiness and the Minimal State** *by Edward W. Younkins*
People are happier when they are in control of their own actions.

693 **Managing Dissonance in the Iron Triangle** *by J. R. Clark*
Why legislators, bureaucrats, and special interest groups behave as they do.

698 **Thomas Babington Macaulay—Extraordinary Eloquence for Liberty** *by Jim Powell*
The inspiring life of the great English historian.

COLUMNS

Center *NOTES from FEE*—**Economic Ends and Means** *by Hans F. Sennholz*

661 *IDEAS and CONSEQUENCES*—**The Privatization Revolution** *by Lawrence W. Reed*

680 *POTOMAC PRINCIPLES*—**Regulatory Overkill** *by Doug Bandow*

706 *ECONOMICS on TRIAL*—**Classical Economists, Good or Bad?** *by Mark Skousen*

DEPARTMENTS

650 **Perspective**—Charles W. Baird, Glenn Hoover

708 **Book Reviews**

• ***Liberty for the 21st Century, Contemporary Libertarian Thought*** edited by Tibor Machan and Douglas Rasmussen, reviewed by Matthew Carolan; ***Environmentalism at the Crossroads: Green Activism in America*** by Jonathan Adler, reviewed by Roy Cordato; ***The Just Society*** edited by Ellen Frankel Paul, Fred D. Miller, Jr., and Jeffrey Paul, reviewed by Ronald H. Nash; ***Principle & Interest: Thomas Jefferson and the Problem of Debt*** by Herbert E. Sloan, reviewed by Douglas E. French; ***Taking Responsibility: Self-Reliance and the Accountable Life*** by Nathaniel Branden, reviewed by Russell Madden; ***The State of Humanity*** edited by Julian L. Simon, reviewed by Walter Block.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone (914) 591-7230 FAX (914) 591-8910
E-mail: freeman@westnet.com
President: Hans F. Sennholz
Managing Editor: Beth A. Hoffman
Guest Editor: Charles W. Baird

Editor Emeritus
Paul L. Poirot
Lewisburg, Pennsylvania
Book Review Editor
Robert Batemarco
Marymount College, Tarrytown, New York
Editorial Assistant
Mary Ann Murphy
Editorial Intern
Jessica Schupak
Columnists
Doug Bandow
Cato Institute, Washington, D.C.
Lawrence W. Reed
Mackinac Center for Public Policy
Midland, Michigan
Mark Skousen
Rollins College, Winter Park, Florida
Contributing Editors
Charles W. Baird
California State University, Hayward
Peter J. Boettke
New York University
Clarence B. Carson
American Textbook Committee
Wadley, Alabama
Thomas J. DiLorenzo
Loyola College, Baltimore, Maryland
Joseph S. Fulda
New York, New York
Bettina Bien Greaves
Resident Scholar, FEE
Robert Higgs
The Independent Institute, Oakland, California
John Hospers
University of Southern California
Tibor R. Machan
Auburn University
Ronald Nash
Reformed Theological Seminary
Edmund A. Opitz
Chatham, Massachusetts
James L. Payne
Sandpoint, Idaho
Jim Powell
Westport, Connecticut
William H. Peterson
Adjunct Scholar, Heritage Foundation, Washington, D.C.
Jane S. Shaw
PERC, Bozeman, Montana
Richard H. Timberlake
University of Georgia
Lawrence H. White
University of Georgia

The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

Copyright © 1996 by The Foundation for Economic Education. Permission is granted to reprint any article in this issue, except "Thomas Babington Macaulay," provided credit is given and two copies of the reprinted material are sent to FEE.

The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of $30.00 or more receive a subscription to *The Freeman*. Student subscriptions are $10.00 for the nine-month academic year; $5.00 per semester. Additional copies of this issue of *The Freeman* are $3.00 each. For foreign delivery, a donation of $45.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available in microform from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106.

PERSPECTIVE

Freedom-for-Labor Day in New Zealand

May 15, 1991, is a day that shall live in glory in the history of the world-wide struggle to free working men and women from the shackles of compulsory unionism. On that date the New Zealand Parliament enacted the Employment Contracts Act (ECA), a piece of legislation that, notwithstanding its two faults, could be used as a model for the rest of the world. It would be an excellent substitute for the American National Labor Relations Act (NLRA).

Section 1(c) of the ECA declares that a purpose of the Act is

> To enable *each* employee to choose either—(i) To negotiate an individual employment contract with his or her employer; or (ii) To be bound by a collective employment contract to which his or her employer is a party (emphasis added).

New Zealand workers can choose to represent themselves in the sale of their labor services or to be represented by an agent. Furthermore the agent does not have to be a labor union. Unions represent only those workers who individually choose them as representatives. There is no forced representation.

Under the NLRA American workers are forbidden to designate representatives of their own choosing. The decision to unionize or not is decided by majority vote. Individuals are not free to choose for themselves. Moreover, American workers can be forced to join (or at least pay dues to) unions that have been certified by majority vote. The First Amendment to the U.S. Constitution forbids government to abridge the freedom of association of any individual. Yet, with the blessing of the U.S. Supreme Court, Congress has given unions the right to force workers to pay tribute to them as a condition for those workers to keep their jobs.

In 1991 the New Zealand Parliament boldly eliminated forced membership and forced dues altogether. Section 6 of the ECA

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

guarantees that membership is totally voluntary. Section 7 of the ECA proscribes any discrimination for or against a worker for membership or nonmembership in a union. Under Section 8(a)(3) of the NLRA employers are forbidden to discriminate for or against any worker on the basis of membership or nonmembership in a union *except* an employer can agree with a union to *compel* union membership.

Section 1(d) of the ECA makes all collective bargaining voluntary. In contrast, under Sections 8(a)(5) and 8(d) of the NLRA employers are forced to bargain in good faith with certified unions on a long list of mandatory subjects of bargaining. Case law has defined good faith bargaining as being willing to make concessions. If an employer does not make sufficient concessions to prove that he is bargaining in good faith, he can be found guilty of an unfair labor practice and forced to accept the union's terms.

This is an excellent example of what Ed Vieira calls the apartheid of American labor relations law. In every other area of the law, in order for contracts to be valid they must have been entered into freely by all of the parties involved. Parties are not forced to bargain, they must choose to bargain. Contracts that are the result of coerced bargaining are not enforceable. But in American labor relations law *all* collective bargaining contracts are coerced and enforceable. All U.S. collective bargaining contracts are based on involuntary exchange.

The two faults in the ECA I alluded to above are: (1) it prescribes mandatory unjustifiable dismissal restrictions in all employment contracts whether individual or collective, and (2) it gives jurisdiction in employment contract disputes to a specialist court made up of judges who served on the old Labour Court under the compulsory unionism regime that preceded the ECA. First, the stated aim of the ECA is to restore the common law of property, contract, and tort to labor relations—i.e., to stop treating labor relations as a special case. Under the common law of employment, all employment relationships were at-will unless otherwise agreed to by both the employer and the employee. There is no room in the common law of employment for mandatory unjustifiable dismissal restrictions in employment contracts. Second, labor relations cases should be tried in generalist courts rather than in courts that are dedicated to treating labor relations as a special case.

Nevertheless, the ECA has abolished all forms of compulsory unionism in New Zealand. Next to that, its faults pale in significance. Compared to New Zealand, America is not the land of the free, at least not in labor relations.

—CHARLES W. BAIRD
Guest Editor

Forty Years Ago in *The Freeman* . . .

Most people want commodities to be sold in free markets, but many doubt if such markets are suitable for the determination of wage rates. They insist that workers should be permitted, or even encouraged, to organize and bargain collectively with their employers. They believe that just wages can be had only if workers are permitted to collectively decide the minimum price at which they will sell their services. . . .

By definition, a free market for labor is one in which no monopoly power is exercised by either employers or workers. In such markets, how much will a prospective worker receive? The amount of the offer cannot be predicted, but this much is evident:

1. The employer will not offer more than his estimate of the value to him of the worker's services.

2. The worker will not accept any offer that is less attractive than he can get from some other firm.

With these limits, if he is to work for the firm in question, a wage must be agreed upon. If there is a more just method of determining wages, I have yet to hear of it.

—GLENN HOOVER
A Just Distribution of Wealth
(*Reprinted from* The Freeman, *October 1956.*)

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Tom Paine, Adam Smith, and John Stuart Mill:

Classical Libertarian Compromises on State Education

by Edwin G. West

There seems to be a consensus that the typical intellectual today is more comfortable than most with the government supply of education. But what of the intellectuals who were also advocates of laissez faire in the eighteenth and nineteenth centuries? They would surely not approve of today's extensive intervention. I shall argue, nevertheless, that their tendency to compromise seriously weakened the defenses against an all-encompassing state.

From among the early intellectual libertarians I shall concentrate on the political economists. I shall then focus on Adam Smith, John Stuart Mill, and a writer whose characterization as a political economist may be challenged by some: Tom Paine.

The Preliminary Promise

Before proceeding to the inconsistencies in these writers I shall, in fairness, start with the strongest parts of their arguments. Of their main recommendations that distinguish them from current practice in education, the most striking is their insistence that school fees should not be abolished and should always cover a significant part of the cost of education. The main reason for this requirement has either been subsequently forgotten or carefully avoided. Fee-paying is the one instrument with which parents can keep desirable competition alive between teachers and schools. Adam Smith was the most insistent on this point. Most of the later economists in turn upheld Smith's principle. Thus Thomas Malthus argued that if each child had to pay a fixed sum, "the school master would then have a stronger interest to increase the number of his pupils. . . ."[1]

Similarly, James McCulloch thought that the maintenance of the fee system would secure the constant attendance of a person who shall be able to instruct the young, and who shall have the strongest interest to perfect himself in his business, and to attract the greatest number of scholars to his school.[2] Otherwise, if the schoolmaster derived much of his income from his fixed salary, he would not have the same interest to exert himself, ". . . and like all other functionaries, placed in similar situations, he would learn to neglect his business, and to consider it as a drudgery only to be avoided."[3]

While James Mill also strongly shared this view, the most hesitant of the classical economists to insist on positive fees for

Dr. West is emeritus professor of economics at Carleton University in Ottawa, Canada, and author of Education and the State *(Liberty Press).*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

schooling was his son, J.S. Mill. But after much deliberation he wrote to Henry Fawcett: "I, like you, have a rather strong opinion in favour of making parents pay something for their children's education when they are able. . . ."[4]

To the twentieth-century liberal such reasoning is profoundly wrong because it makes the degree of schooling of a child a simple function of the size of his or her parent's pocket or purse. Yet the taxes that pay for "free" public education derive from revenues collected out of the same pocket. The poor were substantial taxpayers in the eighteenth and nineteenth centuries, the period that preceded the progressive income tax. Indeed in the first half of nineteenth-century Britain, taxes on food and tobacco counted for about 60 percent of all central revenue.

But even today the poor pay taxes—with every cigarette, every can of beer, and every gallon of gasoline they purchase. In other words, if schooling is made compulsory and "free," people with low incomes will almost always contribute to its cost from their tax contributions, however modest. But suppose this same sum was collected not, as now, but at the door of their chosen school in the form of a tuition fee. The consequence would be considerable family protection against inferior service. This was the main point urged by the early political economists. Its cogency meanwhile is measured by the anxiety of the current school monopoly to attack it immediately wherever it appears.

The Subsequent Retreats

Having made the first move in favor of family liberty, however, all the classical writers mentioned could not resist making what to them were minor exceptions to the rule.

Tom Paine

In his famous book *The Rights of Man*, first published in 1791/92, Paine agreed that the quantity of education was insufficient but the shortfall was due not to the unwillingness of parents to educate their children adequately, but to the simple fact of poverty. But poverty, in turn, Paine emphasized, was due almost entirely to excessive taxes on the poor. General taxation, and especially the excise, had been increasing substantially in the late eighteenth century. The land tax, paid by the aristocrats, in contrast had been falling. Just over one half of the total revenue went for servicing the huge national debt. The remainder went for current government expenses that Paine believed to be extravagant. And he insisted that money taken in taxation from average families was much more than enough to finance a basic education for their children. (Much of this revenue, incidentally, came from the poor rates.)

After producing an agenda for radical reduction of government expenditure, Paine set about discussing how to dispose of what he called the "surplus." Instead of proposing simple reduction of taxes on the poor, to which the logic of his argument pointed, he advocated instead a *conditional* remission of taxes. The condition was that parents should send their children to school to learn reading, writing, and arithmetic. And who should monitor such a "voucher system"? Paine had no qualms in proposing that it be done by the minister of the church parish: "The ministers of every parish . . . to certify jointly to an office, for that purpose, that this [educational] duty be performed."[5]

After speaking up for the average man, therefore, Paine proceeded to indicate that ultimately he mistrusted him. The implication was that if simple tax reduction was resorted to, the people could not be depended on to spend enough of their increased disposable incomes on education. Yet Paine's initial argument was that it was heavy taxation that was the main obstacle to private purchase of education. He had no evidence that the reluctance was due to basic family preferences. And even if it was, there remained the issue of liberty. Did Paine's rights of man not extend to freedom to decide the type and amount of education

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

for their children? Unfortunately, however, he failed to address this question.

Paine's voucher scheme demanded *schooling*; yet this was not the only vehicle for education. Why then did he superimpose his own choice? And why should ministers of religion have the sole right to monitor the voucher program? Would they not increasingly modify the definition of education to become more and more in conformity with their particular religious creed? What constraints were there on the size of the special office that Paine wanted the ministers to report to? He appears to have paid no heed at all to the counsel of William Godwin. Godwin had warned about the potential growth of bloated bureaucracies that would be encouraged by late eighteenth-century proposals for "national education."

Adam Smith

Smith's famous book *The Wealth of Nations* (1776) argues that economic growth will best occur when "natural liberty" is respected and leads to specialization or participation in the division of labor. But when the division of labor reaches its fullest development, Smith tells us in his Book V, the worker "becomes as stupid and ignorant as is possible for a human creature to become."

Smith's forecast of the degeneration of labor is based on one condition: that government fails to take "some pains to prevent it." The main task of government, he argued, was to secure the education of the common people. But since Smith explains that government in his own country had for a long time actually taken the necessary pains, the implication is that the road to cultural destruction, in Scotland, at least, was firmly closed and the potential nightmare scenario avoided.[6] So, just like Tom Paine, Adam Smith reveals his mistrust of ordinary people when it comes to their duties to educate their children.

In his Glasgow Lectures of the 1760s, Smith is even more explicit. Once his market economy fully establishes the division of labor, "The minds of men are contracted and rendered incapable of elevation. Education is despised, or at least neglected. . . ." Having observed that, in contrast, people of some rank and fortune have money to afford education, Smith also declares: "It is otherwise with the common people. They have little time to spare for education. Their parents can scarce afford to maintain them even in infancy."[7] Here Smith falls into the same trap as Tom Paine. To maintain that poverty is the formidable obstacle tells us nothing about the real tastes of people for education. The only true test is to see what happens when poverty is removed. But in any case even if people would buy less education than Smith would like, his willingness to bring in government would appear to conflict with his famous principle of "natural liberty."

Smith is inconsistent in yet another sense. His statement that parents are too poor appears to conflict with his parallel economic argument that wages per capita had been rising for two centuries, and further progress to higher stages of the division of labor via the invisible hand was expected to bring still higher rewards to "all ranks of society." But if Smith expected real incomes to continue to rise, so would leisure, and so would the ability to afford and to enjoy more education.

It will now be helpful, momentarily, to step outside of the context of internal logic, and look at Smith's different forecasts of workers' fortunes in the light of evidence relating to the half century following his demise. First, his prediction of rising real incomes was clearly borne out. The general conclusion of economic historians is that in Britain in 1850 real wages were about double what they had been in the period 1801–4, which was just over a decade after Smith's death in 1790.[8] Also implicit in Smith's predictions of rises in real incomes, to reiterate, are expected increases in leisure. Subsequent evidence, in fact, unambiguously reveals the steady decline in weekly hours of work since Smith wrote.[9]

Did the income and leisure improvements of the "common people" lead them to increase their purchases of education in Brit-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ain after Smith's demise and without substantial prompting by government? The major educational intervention in England and Wales did not come until 1870 when the Forster Act introduced government schools for the first time. Yet by 1869 most people in England and Wales were literate, most children were receiving a schooling and most parents, working-class included, were paying fees for it. And all this was well before schooling was government-provided, compulsory, and "free."[10]

The Scottish Act of 1696, which impressed Smith, laid down that a school should be erected in every parish and that teachers' salaries be met by a tax on local heritors and tenants. This schooling, however, was not made compulsory by law; and neither was it made free. The parental fees made up a big part of the teachers' salaries and were paid by every social class. Indeed, the Scots did not have "free" and compulsory schooling until about the same time the English did in the 1880s. The more Smith championed the Scots parochial school system, therefore, the more the implicit credit he was paying to working parents. Their action in voluntarily paying fees to purchase education at the parish schools was obviously a tribute to them in Smith's own time despite his contrary statement in the *Lectures* that education would be "despised" after the division of labor was established.

More interesting still, it was the fee-paying private schools that were bearing the main burden of Scottish education in terms of the number of scholars. For every one Scottish parochial school pupil in 1818 there were two non-parochial school pupils. And the latter outnumbered the former by much more than two to one in the growing industrial areas such as Greenock, Paisley, and Glasgow—the very areas where Smith argued there was greater need for schooling.[11]

John Stuart Mill

Like Tom Paine and Adam Smith, J.S. Mill also has the reputation of a serious advocate of freedom for the individual. In his celebrated essay *On Liberty* (1859), Mill asserted that "the sole end for which mankind are warranted, individually or collectively, in interfering with the liberty of action of any of their number, is self-protection. That the only purpose for which power can be rightfully exercised over any member of a civilized community, against his will, is to prevent harm to others."[12]

With regard to education, Mill scores many points with modern libertarians with his famous remark in his essay that "A general state education is a mere contrivance for moulding people to be exactly like one another . . . in proportion as it is efficient and successful, it establishes a despotism over the mind, leading by natural tendency to one over the body."[13]

It is usually forgotten, however, that Mill was equally critical of the alternative scenario: the free market in education. His reason was that "the uncultivated cannot be competent judges of cultivation."[14] In other words, market failure occurs in this case because "persons requiring improvement, having an imperfect or altogether erroneous conception of what they want, the supply called forth by the demand will be anything but what is essentially required."[15]

As to the empirical evidence of what the real world education market was like, Mill seems to have been as misinformed as Adam Smith. Mill protested that ". . . even in quantity it is [in 1848] and is likely to remain, altogether insufficient, while in quality, though with some slight tendency to improvement, it is never good except by some rare accident, and generally so bad as to be little more than nominal."[16]

Mill could not have read any *national* reports on education because the first full census of schooling did not appear until 1851, three years after he had written the words in the previous quotation. It is reasonable, meanwhile, to conjecture that he relied upon his circle of radicals and Utilitarians for his evidence, and especially on his colleague James Kay who had recently founded the Manchester Statistical Society (MSS). I have previously subjected the findings of the MSS on education to close

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

analysis and have concluded that its measure of numerical deficiency in schooling in 1838 was seriously flawed.[17] As for its findings on school quality, the primary criterion seems to have been moral instruction which, of course, involves considerable subjective and serious individual value judgment. Mill referred hardly at all to one of the major "outputs" of education, namely literacy. From the copious research on this issue that has accumulated since Mill's time, R.K. Webb, a leading historian expert on this subject, has concluded that by the late 1830s (i.e., about a decade before Mill wrote his *Principles*), between two-thirds and three-quarters of the working classes were already literate.

Despite Mill's dislike of general government provision of education (i.e., in government schools) he, like Paine and Smith, was willing to compromise. The first part of the compromise was his reconciliation to *some* government schooling. "Though a government, therefore, may, and in many cases ought to, establish schools and colleges, it must neither compel nor bribe any person to come to them." A state school should exist: "if it exist at all, as one among many competing experiments, carried on for the purpose of example and stimulus, to keep the others up to a certain standard of excellence."[18]

It is interesting that without any evidence, Mill presumed that the state schools would always be the superior pacesetters. And to openly forbid government to "bribe" people to come to its schools is to hide the fact that they are financed by taxation. Some indeed would equate this arrangement with hidden bribery of taxpayers.

The second part of Mill's compromise was his insistence that education should be made compulsory. Notice that he demanded compulsory education and not compulsory schooling. Furthermore, he proposed to support it with a system of enforcement of public examinations to which children from an early age were to be submitted: "Once in every year the examination should be renewed, with a gradually extending range of subjects, so as to make the universal acquisition and what is more, retention, of a certain minimum general knowledge virtually compulsory."

Mill advocated Bentham's system of examinations as the price to be paid for the right to vote. Strictly speaking this solution did not remove the power of the state over education, it only restricted it to the power of those officials who were to be appointed on behalf of the state to set the examinations. Mill thought that this would not matter so long as the examinations were confined to the "instrumental parts of knowledge" and to the examination of objective facts only.

The fact that Mill did not enter into further details as to what was to constitute "a certain minimum of general knowledge," enabled him to escape many of the serious difficulties which lay beneath the surface of his plan. For instance, who was to determine the subjects to be taught? How would one choose between, say, elementary political economy and geography? Could powers of censorship be easily exercised? Suppose that certain individuals had aversions to certain subjects, who would be the arbiter? J.S. Mill himself, for instance, had a particularly strong objection to the teaching of theology and was insistent that national education should be purely secular. We have here, it seems, not so much the libertarian as the intellectual paternalist with noble intentions. Certainly his treatment of other people's opinions on this subject seemed to contradict the spirit of Mill's *On Liberty* as it is popularly conceived.

Finally, in his anxiety to judge ordinary people, John Stuart Mill made exactly the same logical error as his fellow libertarians Tom Paine and Adam Smith. The two latter stated that people were too poor to afford education and at the same time were culpable for not wanting it. Mill's version of this non-sequitur went as follows: "In England . . . elementary instruction cannot be paid for, at its full cost, from the common wages of unskilled labor, *and would not if it could.*"[19] How did he know?

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Conclusion

Where education is concerned, Tom Paine, Adam Smith, and J.S. Mill were not full-blown libertarians. Rather they were liberators. Ultimately, they wanted to *liberate* the masses into a world of culture (their conception of culture) and into a realm of reason (their reason). In so doing they were all willing to make significant compromises that, for them, legitimized the intervention of government. And while their support of the free market led them to favor maintaining tuition fees at all times, they failed to foresee that the government bureaucracy they were willing to set afoot would swiftly abolish tuition, or rather substitute "tax prices" for conventional prices.

At this distance in time, another libertarian, and one who was a contemporary of Paine and Smith, seems to have been much more insightful and skilled in the art of prediction. William Godwin, who was a philosopher, not a political economist, wrote the following cautionary words in 1796: "Before we put so powerful a machine [education] under the direction of so unambiguous an agent, it behooves us to consider well what it is that we do. Government will not fail to employ it to strengthen its hands and perpetuate its institutions."[20] □

1. Malthus, Letter to Whitbread, 1807.
2. J.R. McCulloch edition of *The Wealth of Nations*, 1828, note XXI.
3. *Ibid.*
4. Letter to H. Fawcett, 24 October 1869.
5. Tom Paine, *The Rights of Man* (London: Everyman Edition, 1961 [1791]), p. 248.
6. Smith also recommended government regulation such that proof of some basic level of education was to be the price of entry into skilled trades and professions. But he appears to have been content that the Scottish parochial system had already made most people literate. Smith also advised the inclusion of simple geometry and mechanics in the curriculum. There is no evidence, however, that this was widespread practice in the parochial schools.
7. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, reprinted in two volumes, R.H. Campbell, A.S. Skinner, and W.B. Todd, eds. (London: Clarendon Press, 1976), p. 784.
8. R.S. Neale, "The Standard of Living, 1780–1844: A Regional and Class Study," in Arthur J. Taylor, *The Standard of Living in Britain in the Industrial Revolution* (London: Methuen, 1975), p. 173.
9. Joseph S. Zeisel, "The Workweek in American Industry 1850–1956," *Monthly Labor Review*, 1958, pp. 81, 58.
10. Edwin G. West, *Education and the State* (London: I.E.A., 2nd ed., 1970), p. xvii.
11. Select Committee on the Education of the Poor, Parl. Papers, 1818, III. See also an account of this document in *Edinburgh Review* XCI, 1827, pp. 107–32.
12. *On Liberty* (1962) Fontana edition, p. 135.
13. *Ibid.*, p. 239.
14. J.S. Mill, *Principles of Political Economy* (New York: Augustus Kelley, 1969), p. 953.
15. *Ibid.*
16. *Ibid.*, p. 956.
17. Edwin G. West, "The Benthamites as Educational Engineers," *History of Political Economy*, 1992, 24:3.
18. Mill, *On Liberty*, p. 240.
19. *Ibid.*, p. 959, my emphasis.
20. William Godwin, *Enquiry Concerning Political Justice and its Influence on Morals and Happiness* (London: 1796), p. 297.

Check Out FEE and *The Freeman* on the World Wide Web!

Log on and explore The Foundation's new and improved Home Page.
Several features and attractions have been added to enhance the appearance and content of this invaluable source of information.

Visit the FEE Home Page at http://www.pg.net/fee

A great way to introduce friends and relatives to the wonders of freedom!

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

The Vatican and the Free Market

by John C. Goodman

An unusual event took place in Rome earlier this year. A group of pro-free enterprise intellectuals assembled at the Vatican to analyze the crisis of the family and the role of government in creating it.

Participants included Nobel Prize-winning economist Gary Becker (University of Chicago) and America's foremost writer on theology and capitalism, Michael Novak (American Enterprise Institute). They came from such diverse countries as Chile, Poland, and Hong Kong. The attendees were united in a common belief that big government is more likely to be a cause of problems than a solution.

So what do free-market economists and liberty-loving scholars, many of whom are nonreligious, have in common with the Catholic Church? More than you might think.

The church, of course, has had an uneasy relationship with scholars since the days of Galileo. And economists have fared not much better than astronomers. To the extent that outside intellectuals have made an impact on Catholic social thought, the influence has come mainly from those who advocate the welfare state and are hostile to the market. The classical liberal tradition, which among economists runs from Adam Smith to Ludwig von Mises to Milton Friedman, has largely been ignored by the clergy.

Yet times are changing. In his most recent encyclical on economics, *Centesimus Annus*, Pope John Paul II noted that the modern welfare state is often costly, bureaucratic, and counterproductive; further, he averred that it often substitutes for private sector charity that does a better job. Although contending that it can be a mixed blessing, the Pope called capitalism "the most efficient instrument for utilizing resources and effectively responding to needs."

Families Matter

One area of common concern is the family. Becker stated that economists are discovering solid evidence that families are far more essential than government in creating "human capital"—the knowledge, skills, beliefs, and values that make people productive. Further, traditional two-parent families are far better at creating human capital than are families headed by single mothers.

One way of thinking about human capital is to see it as what is inside our heads that helps us succeed, as distinct from physical capital like machines and computers. Both kinds of capital are important. But 80 percent of the total U.S. capital stock is human capital and only 20 percent is physical capital.

Evidence shows that mothers matter a

Dr. Goodman is president of the National Center for Policy Analysis, a research institute founded in 1983 and internationally known for its studies on public policy issues. The NCPA is headquartered in Dallas, Texas.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

great deal in the formation of human capital. They are a major determinant of their children's health and educational attainment, especially for their daughters. Fathers also matter. Patrick Fagan of the Heritage Foundation presented an impressive array of data showing that children born to and reared by single mothers have lower educational achievement, higher crime rates, and more psychological problems.

Becker says that there is a human capital problem among those in the bottom 20 percent of the income distribution in the United States. Too many children born in this stratum are not learning the skills and adopting the habits and values that other children acquire. One result is increasing inequality. For example, prior to 1950 college graduates earned about 40 percent more than high school graduates, on the average. Today they earn 80 percent more.

Can government solve the problem by providing education and skills that traditionally have been provided by parents? Becker says there is no evidence that that will work. Patterns set by age five are difficult to reverse, and studies show that job-training programs for 16-year-olds do not succeed because they cannot overcome the failure to learn skills in the first 16 years. What about replacing real mothers with professional day care personnel? Sweden tried this on a grand scale (a literal nationalization of the family) at great social cost, but produced no evidence of positive effects on children.

Clint Bolick (Institute for Justice) noted that scholarly research on school choice is consistent with the preference of Catholic parents for parochial schools. Despite efforts by the teachers unions to muddy the water, carefully researched studies find that private (mainly Catholic) schools outperform public schools by every measure. They are more cost effective, and their students perform better on standardized tests, go to college more often, and earn more lifetime income.

Although these ideas were well received, the conferees did not agree on everything. Cardinal O'Connor of New York argued that abortion was the single greatest threat to civilization. Many of the academics politely avoided the topic. Surprisingly, however, the group reached common ground on the issue of population growth.

The Positive Aspects of Population Growth

Outside the church, economists are one of the few groups who view people as a resource, rather than as a pollutant. William McGurn of the *Far Eastern Economic Review* recalls that 30 years ago dire warnings were issued about population growth in Asia and the threat it posed to living standards. Since then, the Asian population has more than doubled and per capita income has more than quadrupled in what has been one of the most amazing economic expansions in the history of the world. Moreover, those Asian countries with the greatest population densities are the ones with the highest growth rates—Hong Kong, Singapore, Taiwan, South Korea, and Japan.

The world population has increased sixfold since Thomas Malthus thought it had reached its capacity. Even today, no evidence exists that economic growth is imperiled by too many people. Grain production in the undeveloped world is growing at twice the rate of populations, and food prices—like most international commodity prices—have fallen over the past decade, indicating abundance, not scarcity.

Moreover, McGurn said that population control rhetoric is often covertly racist. For example, no one ever complains that there are too many Dutch. Yet the Netherlands is three times more crowded than China, which has a controversial "one child" policy.

Among developed countries the problem is a birth dearth. The rate at which women are having children is below the population replacement rate—implying that without immigration the populations of these countries will begin shrinking in the next century. Ironically, the Catholic countries of Italy and Spain have two of the lowest birth rates in the world.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Without passing moral judgment on the result, economists explain the decision to have children as a response to economic incentives. One hundred years ago, children were viewed as an economic investment. By the age of 12, they produced more than they consumed, and they could be counted on to support their parents in case of disability or old age.

Today, children are a financial liability, and social insurance programs have largely replaced the family as a source of income for widows, the disabled, and the retired. Technological advances have reduced the time needed to cook, clean, and otherwise care for a home, even as the market lures women with higher and higher wages.

What are the implications of these developments for government policy? Clearly, pay-as-you-go social security systems, which depend on a large influx of new workers to pay benefits for the elderly, cannot survive. So a popular idea among the conferees was to move to a private system in which individuals contribute to a personal retirement account and make their own investment choices. Moreover, since families have more economic power and are more prosperous in free markets, privatization and deregulation also were popular ideas.

The conference document, published in *Osservatore Romano*, the unofficial newspaper of the church, places much of the blame for "the breakdown of the family" on government. It says "the welfare state, and its social welfare systems, which began with the best intentions, *accelerate this family breakdown* by weakening parental responsibilities and choices." Although some recommendations can be interpreted as expanding the role of government in some areas, the overall theme is that power should be transferred from government to families. In addition, the document states that deregulation of the labor market would free employers "to give jobs to young people" and with the elimination of rent controls "young families would gain adequate housing."

Above all, the conferees agreed we should end government programs that discourage marriage and encourage dependency on the state—the prime example being the U.S. welfare system. According to the document, the "institution of the family often does better than large institutions try to do. The family should not hand over its *inalienable rights and responsibilities* to the State."

This conclusion contrasts sharply with the position of Catholic Charities USA, which ardently defends the welfare state, arguing that it is the foundation of private charity. (Since Catholic Charities gets 62 percent of its funds from government, however, the organization now functions more as an arm of the welfare state than as a private charity.)

Will free-market ideas further penetrate the thinking at the Vatican? When the Pope spoke to the group, he disappointed some by referring to a "just wage," an idea rejected by economists since the days of Adam Smith. But they believed he was on sound footing when he condemned "tax systems [that] penalize families or aggravate their economic condition."

In summarizing the results of the conference, Becker, who is not a Catholic, said, "I am struck by the similarity between the church's view of the relationship between the family and the economy and the view of economists—arrived at by totally independent means." Economic science and spiritual concerns appear to point in the same direction. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Privatization Revolution

There's a revolution underway. It's worldwide, nonviolent, and pro-freedom. It's known by a word that wasn't even in dictionaries 20 years ago—privatization.

Privatization, in its broadest sense, is the transfer of assets or services from the tax-supported and politicized *public* sector to the entrepreneurial initiative and competitive markets of the *private* sector.

Done properly and with care, privatization harnesses the powerful market forces of competition, accountability, and incentive. It means that government officials don't have to be hemmed in by an indifferent bureaucracy; instead, they can "shop around," as other consumers do, for the best available buys.

State and local governments have routinely experienced cost savings of 10 to 40 percent through privatization, and often with improvements in the way an asset is managed or a service is delivered. When and where assets and services can be put entirely in private hands—with the middleman of government absent altogether—even greater efficiencies are possible.

The most common form of privatization—*contracting out* to private firms—has become more than just a trend. With decades of experience, it has become something of a science at the local level in America. We now know what it takes to make this work: open, competitive bidding for contracts that are subject to periodic renewal; careful writing of the contract terms to incorporate clear language and appropriate safeguards; and effective monitoring of performance to ensure the contract is being carried out.

Commercialization is another form. That happens when a unit of government simply says, "We're no longer going to do this work with our own workforce. We're not going to contract it out either. We're simply going to get out of this business altogether. The customers we used to serve can take care of the job themselves by contracting with the private provider they choose."

This is how, for instance, cities across America have pulled out of the garbage business. Individuals shop among several private, competitive firms that specialize in picking up and properly disposing of garbage. No middleman, no taxes, no boring city council meetings to sweat through in order to register a complaint. You hire the service and if *you're* not happy, *you* fire it and hire a different one. This form of privatization tends to enhance both our liberties and our pocketbooks.

Other forms of privatization include:

- the outright gift or sale by government of a physical asset (a piece of equipment or a building, perhaps) to a private entity;

Lawrence W. Reed, economist and author, is president of the Mackinac Center for Public Policy, a free-market research and educational organization headquartered in Midland, Michigan. This article is adapted from a speech he gave earlier this year at Hillsdale College in Hillsdale, Michigan.

Mr. Reed is editor of Private Cures for Public Ills: The Promise of Privatization *(The Foundation for Economic Education, 1996).*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

• the sale of stock in a newly privatized company that was formerly state-owned;

• the ending of subsidies and all the red tape and regulations that came with them, liberating an industry to produce for the market instead of for the government.

In a few places around the world, privatization is occurring because the enlightened leaders in power are motivated by ideology. They *know* that free markets work and socialism does not.

In most places, however, privatization is occurring for more pragmatic reasons. Countries, states, provinces, or communities have hit the "tax wall." They have no more room to raise taxes. Doing so would either violate some constitutional or statutory limit, or send people and businesses packing for friendlier climes. So, for practical reasons, hard-pressed politicians are exercising the best or only option they have: privatization.

At the federal level in America, little has been privatized but much could be. The power of entrenched bureaucracy and special interests who support the status quo is greater in Washington, as a rule, than it is at the state or local level. Proposals to privatize everything from Social Security to federal lands to the post office are now on the table, but they probably await a more friendly administration.

At the state level, there's much more going on. States are privatizing utilities, prison management, data processing, child foster care, and a long list of other items. It is, however, at the *local* level of government—counties and cities and schools—where the privatization revolution is gaining momentum. Just about any asset or service that a local government owns or provides has been privatized somewhere, in some manner, partially or wholly. That includes fire protection, certain elements of police protection, wastewater treatment, street lighting, tree trimming, snow removal, parking structures, railroads, hospitals, jails, and even cemeteries.

Thinking seriously about privatization prompts officials to open their minds and think about the role of government services and good stewardship of the public purse. It forces them to find out, for instance, how much it is actually costing them to provide those services. When they add up all their true costs—including hidden ones—they discover how hopelessly inefficient government is.

Studies by the dozens verify effectiveness of privatization. Objections, however, are still heard and sometimes loudly. Here are the most common ones, along with a brief response:

• *Privatization is anti-public employee.* We must remember that government should not exist for the benefit of those who work for it; its only legitimate purpose is the protection of *everyone's* life and property. Governments that employ more people than necessary, or that pay their employees more than the market will bear, are not doing any favors for the citizens—including the poor—who are picking up the tab.

• *There are instances where it didn't work, so we shouldn't do it anywhere.* I have yet to see a case where a failure was really an indictment of privatization itself. Failures are almost always arguments for avoiding such poor practices as noncompetitive bidding, sloppy contract writing, or nonexistent monitoring of performance.

• *It can breed special interests who will lobby for more contracts and services from government, even when that's not warranted.* Public bureaucracies lobby for more government, too. This is an argument for taxpayers and the press to be vigilant, not an argument against privatization.

• *Government officials may not do the right thing with the savings.* It's true that when privatization generates lower costs, officials may have multiple options for realizing the gain. They may choose to avoid raising taxes or actually cut them, passing on the savings to taxpayers. Or, they may simply take the savings and squander them on some other dubious enterprise of government. This is, again, an argument *for* vigilance, not *against* privatization.

All citizens who value freedom and free markets should be encouraged by the privatization revolution. Smaller government will leave us a freer, more responsible, and better-served people. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

A Good Conversation and the Marketplace

by Candace A. Allen and Dwight R. Lee

Everyone appreciates a good conversation. Through conversation people get to know one another, sort out their differences, revel in their similarities, and discover ways to cooperate and compromise to their mutual advantage. The information we obtain through conversation is a major source of human enjoyment and progress.

Not everyone appreciates the free market. Yet there are striking similarities between the marketplace and a good conversation, and, if anything, the benefits from the communication, cooperation, and compromise of the marketplace are even greater than those from a good conversation.

In "The Use of Knowledge in Society," F.A. Hayek pointed out that much of the information required for people to communicate with and respond productively to each other is transmitted through market prices.[1] In essence the marketplace is a communication network, allowing people to transmit information on how they can best serve and be served by others, with full assurance that others will hear this information and respond appropriately.

People communicate with each other in the marketplace through the effect their decisions to buy and sell have on prices. The price of a product tells the buying consumer how much other consumers value another unit of that product, and motivates him to increase consumption only if he values an additional unit more than others do.

Communication through market prices is, of course, supplemented by what we typically think of as conversation. People verbally negotiate and advertise to communicate their preferences and their willingness to satisfy the preferences of others.[2] But verbal communication would do little to motivate cooperative behavior without the more compelling supplement of price communication. If you wanted an apartment in New York City, for example, you could try to coax, wheedle, or cajole every landlord in the city, but without communicating through your willingness to pay the market rent, your verbal skills would be of little value.[3] In contemplating the market price, you are receiving information communicated by everyone else interested in New York apartments, and you are considering that information carefully. A market price concisely transmits the information most relevant to a particular decision from everyone with a relevant interest in the decision, and does so in a way that persuades people to behave responsibly.

Honest Communication

The correspondence between market activity and conversation extends to the well-

Ms. Allen is a teacher-on-special-assignment in the Education Alliance of Pueblo, Colorado. Dr. Lee, is Ramsey Professor of Economics at the University of Georgia.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

established norms of a good conversation. Consider the following:

In a good conversation people communicate with each other honestly. Dishonesty and deception are anathema to the type of conversation people value. The same is true of market communication. Unfortunately, people find occasional advantage in dishonesty when communicating, whether in normal conversation or market exchange. But the advantage realized from deceitful market communication is far less than commonly suggested, and almost certainly less than in most conversations. There is a tendency for people to be more careful with the truth when they have their money at stake than when they don't.

Could we rely on honest evaluations if goods were allocated on the basis of how much consumers said they valued those goods? Not as much as we can when goods are allocated on the basis of how much consumers are actually willing to pay for them. (Remember the old saying, "Put your money where your mouth is"?)

There is no advantage in exaggerating the value placed on a product by offering to pay more for it than it is really worth. The advantage is in purchasing a product only up to the point where the marginal unit is honestly worth as much to you as the price paid—i.e., as much as other people are honestly communicating what another unit is worth to them.

The motivation for suppliers to communicate honestly the cost and quality of a product is less clear. Certainly suppliers would like to charge a price that overstates the actual cost and quality of their products. But such dishonesty is made largely feckless by open markets and competition. As long as consumers have alternative suppliers, it pays those suppliers to represent their products honestly and price them competitively. Indeed, many market arrangements and practices are best explained as a way suppliers, in their competition for customers, commit to honest dealing by willingly exposing themselves to losses if they behave dishonestly.[4]

Paying Attention to What Is Said

A good conversation also requires participants who are attentive to, and concerned about, what others are saying. These attributes are observed in those communicating through the marketplace. When suppliers receive information from consumers in the form of prices and profits (or losses), they pay close attention and respond as if they had the same concern for the interests of their customers as they have for their own. When consumers indicate the desire for more of a product through higher prices and positive profits, suppliers work harder and sacrifice more to satisfy that desire. When consumers indicate through lower prices and lost profits that they want less of a product, suppliers either respond to that desire or relinquish resources to those who will. Similarly, when demand for a product increases, consumers communicate to each other through higher prices that the product should be used more sparingly by those who value it less so more is available for those who value it more. And consumers are sensitive to this communication and respond to it as if they place the concerns of others on par with their own.

When a speaker has a captive audience and monopolizes the conversation, his communication is distorted, boring, and less beneficial than it could be. Similarly, in the marketplace when the competition faced by a supplier is restricted, that supplier ignores much of the communication from consumers, communicates distorted information on the cost of the product, and provides a more boring (or lower quality) product than would be provided had the communication been enriched with competition. A major advantage of an open marketplace is that anyone with a better idea to communicate can enter into the conversation. Without government restrictions on entry, a market will be monopolized only when someone contributes a new idea or product that consumers find more valuable than what was previously available, and then only until others mimic and improve on

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the contribution. Monopoly distortions tend to last only when entry is artificially discouraged and restricted by government action.

Few things destroy a good conversation quicker than participants taking it personally when others express disagreeable views. When parties to a conversation feel that they have to dissemble to avoid aggravating others, or when people become incensed at the honest expressions of others, good conversation dies. A major advantage of communication through the marketplace is that it is impersonal. Lots of disagreeable information is transmitted through the market—your product doesn't measure up to that of the competition, your costs are too high, the skills you have spent so long to develop are no longer valuable, you have to make do with less of a product because others say it is now worth more to them, and so forth. But this information comes in the form of impersonal prices and is transmitted between people who typically have no personal knowledge of, or interest in, each other. There is little reason for taking such information personally. People tend to concentrate on the information being transmitted through the marketplace rather than on the motives and manners of those transmitting it.[5]

Spontaneity

Good conversations are not programmed or scripted. Instead they are characterized by freedom of expression and spontaneous development, so it is impossible to predict where they will lead. An attempt to plan the details of a conversation would reduce the new thoughts and information that emerge and stifle the flexibility needed to respond to them when they do. Such a stilted exchange would compare with a genuine conversation the way central economic planning compares with the economic dynamism of the free market. The failure of socialism provides vivid evidence of the destructiveness of attempts to program and script market communication. The freedom of people to interact through market communication without deliberate guidance is the hallmark of the spontaneous order and economic progress of the marketplace.

Finally, in a good conversation people either speak the same language or have the services of a good translator. The tower of Babel symbolizes the chaos that results without a common language or a means of translating different languages. Most market communication occurs through the common language of prices denominated in a common currency. But not all. Market communication increasingly occurs across national borders with people speaking via different currencies, and the accuracy of that communication requires that the value of one currency be quickly and appropriately translated into the value of others. And, of course, that is exactly what foreign exchange markets do. By allowing people to communicate on the value of different currencies, the foreign exchange market facilitates communication through international markets much as an expert translator facilitates a conversation between people who speak different languages.

The More the Merrier

Recognizing the striking parallels between a good conversation and the interaction that occurs in the marketplace increases our knowledge and appreciation of market economies. But as important as the similarities are, differences obviously exist. Interestingly, some of those differences highlight advantages market communication has over even the best conversations. In the marketplace everyone can communicate at the same time. The rule for a good conversation—"Only one person talks at a time"—does not apply to "conversations" through market prices. For example, every day millions of consumers simultaneously convey information on their preferences to suppliers around the world as their purchases influence market prices. Marketplace communication not only allows everyone to "talk" at the same time, but thrives on a multitude of simultaneous voices. Since everyone can communicate at the same time

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

in the marketplace, as opposed to conventional conversations, the more people involved in market "conversations" the better, as large numbers facilitate greater specialization and competition.

While marketplace communication has important advantages over standard conversation, we are fully aware that the opposite is also true. Notwithstanding the advantages of impersonal communication, and the risks when communication is taken personally, one would have to be emotionally withdrawn to dismiss the value of personal communication. The joys of friendships and intimate relationships are nourished by personal communication that can never be replaced by the impersonal communication of the marketplace. "I love you" is difficult to express in mere market terms.

But marketplace communication does more to foster good personal communication than most people realize. It provides each of us with the information and motivation to use our resources responsibly for the benefit of others. This responsibility is a major factor behind the personal freedom associated with market economies. Advocates of limited government commonly, and correctly, observe that freedom is essential to a properly functioning market economy. But we should also recognize that a properly functioning market economy is essential to freedom. In the marketplace we can tolerate freedom because it will be used responsibly when subjected to the discipline of market information and incentives. And economic freedom tends to carry over into noneconomic spheres to include far more freedom of expression and association than can ever exist in a society with a centrally controlled economy.[6] The marketplace not only supplements conversation with the powerful communication of market prices, it helps establish an environment of trust, responsibility, and freedom in which good conversation can flourish. □

1. See F. A. Hayek, "The Use of Knowledge in Society," *The American Economic Review* (September 1945), pp. 519–530.

2. Market prices are seldom, if ever, in perfect equilibrium, and so cannot communicate all the information they would in an idealized marketplace. Some of this "missing" information can be exchanged through verbal communication. See Gerald P. O'Driscoll and Mario Rizzo, *The Economics of Time and Ignorance* (London: Basil Blackwell, 1985).

3. We assume here that the rent controls in New York City, an egregious example of government censorship, do not exist.

4. Investment in brand name and nonsalvageable capital, providing guarantees, and creating competitors are just some of the ways businesses commit to honesty. For a discussion of these arrangements and practices, see Dwight R. Lee and Richard B. McKenzie, "How the Marketplace Fosters Business Honesty," *Business and Society Review*, No. 92, Winter 1995, pp. 5-9.

5. Hayek considers the value of the impersonal forces of the marketplace in *The Road to Serfdom* when he states: "Once it becomes increasingly true, and is generally recognized, that the position of the individual is determined not by impersonal forces, not as a result of the competitive effort of many, but by the deliberate decision of authority, the attitude of the people toward their position in the social order necessarily changes. There will always exist inequalities which will appear unjust to those who suffer from them, disappointments which will appear unmerited, and strokes of misfortune which those hit have not deserved. But when these things occur in a society which is consciously directed, the way in which people will react will be very different from what it is when they are nobody's conscious choice."

See F. A. Hayek, *The Road to Serfdom* (Chicago: The University of Chicago Press, 1944), p. 106.

6. Economic freedom is not always associated with other freedoms, as evidenced by the examples of China, Singapore, and Vietnam. But there are reasons for believing that the freedom that arises when a country liberalizes its economy is not easily contained and eventually expands to include political and other freedoms as well. Also, evidence from around the world shows that in the absence of economic freedom there is no hope for other freedoms.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Rights, Freedom, and Rivalry

by Charles W. Baird

Packaging counts. This maxim of marketing applies to ideas as well as goods and services. As F.A. Hayek pointed out, there is a confusion of language in political thought. People of different political and philosophical perspectives often use merit words (words that a psychologist would say have positive affect) like "rights" and "freedom" to sell their very different, incompatible points of view. When classical liberals try to expose what they consider the interventionists' misuse of such merit words, they get caught in a semantic trap that makes their arguments harder to sell. In this essay I discuss such a semantic trap and recommend a way to avoid it.

Negative and Positive Rights

"Rights" is definitely a merit word. People of all political persuasions talk about human rights and alleged trespasses against them. But what are they? Here is how a classical liberal might answer that question.

In the Declaration of Independence Thomas Jefferson wrote about "unalienable" rights that all individuals have irrespective of government. These rights are logically prior to government. Government has no legitimate authority to add to or subtract from such rights. Its role is to protect them.

Following John Locke, Jefferson would say that if X is a human right it must apply to all individuals in exactly the same way. Later, Immanuel Kant said that to be legitimate a right had to be "generalizable" to all humans. If Jones has a right, all other humans must logically have the same right. One cannot, without self-contradiction, claim a human right for himself and deny it to other humans. Moreover, it must be possible for all individuals to exercise the claimed right simultaneously without logical contradiction.

For example, is there any job-related human right in the Jeffersonian sense? Yes. It is the right of all individuals to *offer* to buy or sell labor services at any terms they choose. Jones has a right to offer to sell his labor services, or buy the services of others, at any terms he likes. So, too, does Smith. We all do. Those to whom we extend our offers are free to reject them. In exercising this right we impose no duty to undertake any positive action on any other person.

Political philosophers often call this a "negative" right because the only duty imposed on others thereby is a duty to *refrain* from interfering with the person exercising the right (e.g., to refrain from preventing others from making job offers). Smith has no duty to do anything under Jones's rights claim in this sense; rather, he has a duty *not* to do something.

Interventionists typically assert that peo-

Dr. Baird is director of the Smith Center, California State University, Hayward, and this month's guest editor. The idea for this paper came out of a conversation the author recently had with Dwight Lee of the University of Georgia (see pp. 663–666). A conversation with Dwight Lee is always fruitful.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ple have rights in the sense of entitlement to the means to fulfill their wants. They assert that Jones and Smith have a right to a job, a right to an education, a right to health care, or a right to food. At the 1994 U.N. conference in Cairo on population every person was even granted the right to a "satisfying and safe sex life."

Suppose Jones claims a right to a job. If that claim means that Jones will be employed anytime he wishes to be (on whatever terms he wishes?), there must be some other person, perhaps Smith, who has the duty to provide the job. But, then, Smith does not have the same right. Jones's right is to be employed, Smith's "right" is to provide the job. Political philosophers often refer to such a claim by Jones as a "positive" rights claim because Jones's claimed right creates a *duty* for Smith to undertake some positive action that he may not want to undertake.

Classical liberals argue that positive rights are contradictory because they are not generalizable. They cannot be legitimate human rights because not all humans can exercise them in the same sense at the same time. Jones's positive rights claims necessarily deny the same rights claims to Smith. Classical liberal economists argue that only negative rights are consistent with the principles of voluntary exchange.

Now, what is wrong with this way of expressing the argument? Only the packaging. Classical liberals come out defending negative rights, while interventionists come out defending positive rights. To the man on the street "positive" usually means desirable, and "negative" usually means undesirable. This language handicaps the classical liberals' argument and gives the advantage to the interventionists.

Negative and Positive Freedom

There is no word with more positive affect than "freedom." Everyone is in favor of it; no one wants to appear to be arguing against it. Even the rulers of the former Soviet empire claimed to be in favor of freedom (e.g., freedom from hunger). But what is freedom? Here is how a classical liberal might answer that question.

Jones is free if he can pursue his goals, without interference from others, using whatever means are at his disposal, so long as he does not engage any other person in any involuntary exchange. Political philosophers often call this negative freedom because it requires (a) the *absence* of interference from others and (b) Jones to *abstain* from imposing involuntary exchange on others. Negative freedom is generalizable. We each can exercise a negative freedom without denying the freedom of others to do the same.

The freedoms guaranteed to Americans by the First Amendment to the U.S. Constitution—freedom of religion, freedom of association, freedom of speech, and freedom of the press—are all negative freedoms. We each can exercise free choice of religion without denying that freedom to others. Note, however, we are not entitled to join a religious organization that doesn't want to accept us. We each can associate with any individuals or groups, but only so long as they are willing to associate with us. Exercising that freedom does not make it impossible for others to do the same. We each can say what we like without denying that same freedom to others. Note again, however, we may not force people to listen, or to provide us with a forum in which to speak. We each are free to try to assemble the necessary resources, by voluntary agreements with others, to publish a newspaper or a magazine. But we have no right to force people to provide those necessary resources or to purchase or read our publications.

Interventionists assert that Jones is free if he is able to do or obtain what he would like to do or obtain. This is freedom in the sense of power. A poor man is not free in this sense because he has, for example, insufficient means to live in the type of house he would like. Political philosophers often refer to this as positive freedom because its exercise requires the *presence* of means. Of course, if Jones lacks the necessary means, he can be free in this sense only if he has an entitlement to receive the means from oth-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ers whether they like it or not. But then those others are not free because they must give up means which would empower them to do or obtain what they would like. Jones's positive freedom can be guaranteed only by the loss of at least some of Smith's positive freedom.

While classical liberals can rightly argue that freedom for Jones at the expense of freedom for Smith is not really human freedom, the language of the dispute gives the advantage to those who defend positive freedom.

An Alternative Vocabulary

The common characteristic of negative rights and negative freedom is that they can be generalized to all people without logical contradiction. All people can exercise them simultaneously. One person's exercise of a negative right or a negative freedom does not diminish the ability of others to do exactly the same. Fellow economist Dwight Lee suggested to me that the language of public goods is particularly apt. One characteristic of a public good is nonrivalrous consumption. All parties may consume the benefits of the good simultaneously, and one person's consumption does not diminish the consumption of others.

We recommend that classical liberals, philosophers as well as economists, who try to clarify the alternative definitions of rights and freedom henceforth substitute "nonrivalrous" for "negative" and "rivalrous" for "positive." Nonrivalrous rights and freedom are those that can be exercised by all people simultaneously. One person's exercise of them does not diminish the ability of anyone else to do the same. When anyone exercises rivalrous rights and freedom, he does so only by reducing the ability of others to do the same.

The man on the street understands rivalry and nonrivalry to mean exactly what we wish to convey in this discussion. At the very least our suggestion would remove the semantic advantage that interventionists have hitherto enjoyed. □

HAD ENOUGH?

Had enough of the liberal bias in the popular news media? Had enough of "donating" an increasing amount of what you earn to support inefficient, bloated social programs? Had enough of watching our culture degenerate before your eyes? Do you feel like a stranger in an increasingly strange land?

If you answered "yes" to any of the above questions, then you will be interested in a bold, intelligent new magazine, ***The Social Critic***. No, you won't find "inside-the-Beltway" gossip in this magazine. What you *will* find is vital social and political commentary by great social critics such as William Watkins, Jr. of *The Freeman*, and Dr. Charles Baird, Director of The Smith Center for Private Enterprise Studies. ***The Social Critic***—a vital conservative resource now in bookstores across North America.

http://www.socialcritic.com

The Social Critic

Introductory Offer: 14% off the newsstand price.

One-year (six issues) subscription: $18.00
Two-year subscription: $ 34.00 **(19% off the newsstand price)**

Please make check or money order payable to:
The Social Critic

Name_____
Address_____
City _____ State_____ Zip _____

Mail to: The Social Critic
31121 Mission Blvd., Suite 301
Hayward, CA 94544

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

The Flat Tax: Simplicity Desimplified

by Roger W. Garrison

In modern American politics, advocating a flat tax is the surest way of labeling yourself as a supply-sider, a Jack Kemp/Steve Forbes Republican. Michael Evans[1] made the case for the flat tax in his *Truth About Supply-Side Economics* (1983); Robert Hall and Alvin Rabushka[2] have made it twice in their book-length treatment of *The Flat Tax* (1985 and 1995).

Libertarians, many of whom get their economics from the Austrian school and eschew the Republican label, also tend to favor a single rate. In explaining *Why Government Doesn't Work* (1995), Harry Browne[3] offers a flat tax as part of the fix, but he devotes barely more than a page to this issue. The space he allocated to the flat tax as compared to the space allocated to it by the supply-siders, as well as his attention to the size of the tax take rather than the shape of the tax schedule, suggests a significant difference in priority and perspective.[4]

"How Much" and "Just How"

The primary concern of the libertarians is with "how much" the government might tolerably extract from income earners and only secondarily with "just how" it is best (i.e., least painfully) extracted. Browne, for instance, suggests a 10 percent rate, which might raise as much as $500 billion. Barely one-third of the current total tax take, this amount is to finance the correspondingly pared-down expenditures of the federal government. Supply-siders, by contrast, deal with the just-how question as if it can be answered independently of the how-much question. The most common proposal, for instance, is for a revenue-neutral reform: We should scrap our current progressive tax, which we know to be hopelessly complex and inefficient, and adopt a simple and efficient flat tax that would yield the same—or nearly the same—revenue. Some supply-siders (e.g., Evans) would hold out for even *more* revenue.

Opponents of the flat tax can easily point to perceived social inequities, exaggerated claims, and outright fallacies that conventional supply-side arguments entail. A more defensible case for the flat tax is one that keeps the questions of "How much?" and "Just how?" in proper perspective: A flat rate may do little to make a big tax simpler or more efficient, but it may be a near-perfect device for keeping a small tax small. The key issues are (1) the actual incentives created by eliminating deductions in the pursuit of simplicity and (2) the political alliances created by incorporating a large personal exemption for the sake of voter appeal. A healthy consideration of these and related issues suggests that reducing the

Dr. Garrison is professor of economics at Auburn University. *He wishes to thank David Laband, Jim Long, and Leland Yeager for helpful comments.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

total tax take should have priority over imposing a single tax rate.

TANSTAA . . .

We owe to Robert Heinlein the memorable if nearly unpronounceable TANSTAAFL (there ain't no such thing as a free lunch), which expresses one of the most fundamental principles in all of economics. Each major field of study within economics would do well to find its own Heinleinian acronym so as to keep policy prescription anchored to the basics. Let me propose a suitable one for the field of public finance: TANSTAABST. There ain't no such thing as a big simple tax. Head taxes, the only truly simple taxes, are never big; income taxes, the primary source of revenue for the welfare state, are never simple. The claim, made repeatedly by supply-siders, that with a flat tax our tax form would be the size of a postcard can easily be exposed as bad science fiction.

The gains in simplicity are supposedly achieved by the elimination of deductions. Instead of multiplying our income (minus a myriad of deductions) by the effective tax rate, we multiply our income (minus a single personal exemption) by the flat rate. The multiplicand that the tax reformers have in mind, of course, is the income routinely reported on W-2 forms (or on 1099s and the like). For taxpayers in the post-reform period who continued to earn W-2 income, filing would indeed be simple. We should realize, however, that the W-2 form remains a tolerable means of reporting precisely because it is only the starting point for calculating taxable income. To eliminate deductions, which give the taxpayers scope for bargaining with the tax collector, is to eliminate the acceptability to the taxpayer of receiving income on a W-2 basis.

Even under the current system, there are strong incentives for avoiding the W-2. In many areas of the business world the conventional employer-employee relationship is being replaced by the firm's contracting with individuals for services rendered. The elimination of deductions that would accompany the institution of a flat tax would undoubtedly accelerate this trend toward self-employment—which has been driven from the start largely by tax considerations. Under a contractual arrangement, the payment by the firm to the individual is not W-2 income but gross receipts. Income is to be calculated by the individual, with advice from his or her tax accountant, as receipts minus expenses. Even a wholesale elimination of deductions, then, would not achieve a dramatic simplification; it would simply shift the battleground on which taxpayers and the tax collector confront one another. Tax-avoidance strategies would aim at minimizing receipts minus expenses rather than minimizing income minus deductions. TANSTAABST. And the very open-endedness of what might reasonably be counted, in each line of business, as an expense would quite likely make the tax system more complex rather than less.

The extent to which the taxpayers would resist clipping their checks onto a postcard-size tax form is measured by the tax rate itself. Current levels of government spending would require a high rate. Special features of the supply-siders' flat tax would reduce the tax base and make the rate higher still. One of these features, not strictly implied by—and actually at odds with—the concept of the flat tax, is the source of the widely perceived inequity: Interest income is to be treated as if it were not income.[5] This special reward to savers and hence to high-income earners (since they are the ones who can most easily save) derives from the belief that it is actually consumption and not income *per se* that should serve as the basis for taxation. According to this view, people whose current demands for consumer goods are being satisfied should pay the taxes. The preferential status accorded savings—and hence investment and economic growth—is what justifies naming supply-side policies for their one-sidedness.[6]

The pro-saving feature of the flat tax means that the portion of income *not* saved will have to be taxed at a higher rate than would otherwise be necessary. At the same time, it constitutes one—possibly signifi-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

cant—way for taxpayers to avoid the tax. Instead of awarding raises to its employees, a firm may well offer them the opportunity to buy low-risk, high-yield bonds, whose coupon payments (interest-in-lieu-of-wages) are not taxable. The tax collector would, no doubt, attempt to police this and other such tax avoidance schemes, but the process through which the market tries to arrange them and the government tries to curb them is unlikely to contribute to either simplicity or efficiency.

With a tax base that includes salaries and pensions plus business income, the tax rate that achieves revenue neutrality would have to be about 19 percent, according to Hall and Rabushka. During his bid for the Republican nomination for president, Steve Forbes proposed a 17 percent rate, calculated to give most taxpayers a small tax cut—and to give them all a higher budget deficit. But any rate in this range (i.e., 17–19 percent) is certainly high enough to sustain a reconstituted tax-avoidance industry.

The Flatly Progressive Tax

All of the Republican proposals involve a second departure from a strictly flat tax applied to all income, namely, a relatively high threshold level below which no taxes are collected. A substantial personal exemption (Forbes would have allowed for about $36,000 for a family of four; Hall and Rabushka suggest $25,000) has the effect of blurring the distinction between a flat tax and a progressive tax. As a matter of terminology, flat *means* not progressive. How, then, could Hall and Rabushka[7] argue that one advantage to their flat tax is its progressivity? The so-called single rate is actually two rates: 0 percent for income up to $36,000, using Forbes's proposal for illustration, and 17 percent for all income above $36,000. Calculating the *average* tax rate for incomes up to ten times the personal exemption, we get the progressive pattern that rises from 0 percent at the threshold level to 8.5 percent at twice that level to 15.3 percent at ten times that level and that thereafter approaches 17 percent asymptotically.

Supply-siders do not consider this progressivity objectionable at all. What they do find objectionable is an unnecessarily high marginal rate, such as our current top rate of about 40 percent (on taxable income over $250,000). Why, then, do they allow for substantial inframarginal incomes to go untaxed? This, too, causes the top marginal rate of 17 percent to be higher than it needs to be. That is, if a positive rate of, say, 8 percent were applied to some portion of income below $36,000, then a rate of, possibly, 15 percent could be applied to all income above that level. And the lower the top marginal rate, the stronger the standard supply-side arguments about increasing employment, exploiting the Laffer curve, and reducing the federal budget deficit through economic growth.

It seems clear that the generous personal exemption is included in the flat-tax proposals largely if not wholly for its voter appeal. The prospects of earning lots of tax-free income and enjoying a progressivity in the average rate on incomes well over the threshold level is attractive to the so-called "middle class"—which is to say, to the median voter. But, whatever the benefits of a flat tax, political attractiveness achieved in this way is a double-edged sword. Once such a tax system is in place, that same political attractiveness would attach itself to government spending in the minds of low- and medium-income voters. An overly generous personal exemption creates an alliance between these voters and elected officials in their efforts to gain economically and politically at the expense of the higher-income taxpayers. Government spending could have (gross) benefits for us all or could benefit mostly the poor while being paid for by the rich. This pattern of benefits and costs and resulting conflict among the differently situated taxpayers is precisely what any worthwhile tax reform would have to preclude.

Actually Achieving Simplicity

The advertised simplicity of a flat tax cannot be achieved by the elimination of

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

deductions. As already suggested, determining what constitutes income would be, if not more complex, just as complex as determining what counts as a deduction. Further, the flatness of a flat tax does not translate into simplicity in any relevant sense. Progressivity in the sense of multiple brackets with stepwise increases in the marginal rates eliminates big jumps in the tax schedule while adding little or no computational complexity. Taxpayers who look up their tax liability on a suitably constructed tax table, like the cashier who looks up the sales tax on a similar table taped to the cash register, may not even notice whether the table was constructed on the basis of one rate, two rates, or ten rates. And while reasonable people could disagree about the relative merits of having a single rate or having ten, the merits of having just two, as entailed by a flat rate with a generous personal exemption, are dubious. People may prefer living in a one-story house rather than having to cope with stairs. But it doesn't follow that a two-story house can be "simplified" by removing the staircase. Similarly, replacing the several small steps in the current progressive tax schedule with one giant step at $36,000 is not an obvious improvement.

If tax simplicity is achieved, it will be achieved not by the tax rate's flatness but by its lowness. TANSTAABST. There ain't no such thing as a big simple tax. But a small tax can be simple—and for a simple reason: If taxpayers find it easier and less costly to pay the tax than to redesign their economic lives so as to avoid paying it, the incentives for creating and exploiting complexities are effectively blunted. The resulting simplicity, of course, is not a goal unto itself but rather a healthy indicator that we have achieved the prerequisite goal of low taxes.

As Hall and Rabushka have emphasized, the tax rate can be its lowest if the tax is applied broadly, although they would apply it broadly to all consumption rather than (even more) broadly to all income. Salary income encourages working; interest income encourages saving. With a broad base that encompasses both, the disincentive effects of taxing are minimized. Our current tax system has a strong anti-saving bias; Japan's tax system has a strong pro-saving bias. Neither bias has a justification in economic theory, and both biases cut into the tax base. There is a strong and obvious case for avoiding a bias in either direction while at the same time broadening the base. A low rate applied to a broad base lets income earners make their decisions about working and saving on the basis of the actual—non-tax-related—tradeoffs that these decisions entail.

A lower rate still is facilitated by the elimination—or minimization—of the personal exemption. (Browne allows for none.) The paring down of government expenditures provides a double-barreled justification for eliminating this exemption. First, the rate would be low, so as not to significantly burden even the low-income taxpayer. Second, since the services actually provided by government would be only those considered as essential to our well-being as other necessities that low-income taxpayers buy in the private sector, no taxpayer would be unduly burdened. Subjecting the low- and medium-income taxpayers to a tax burden proportional to the burden of the high-income taxpayers is in full compliance with both the letter and the spirit of a flat tax. Stringent voting rules need to be in place to guard against uncalled-for increases in the flat rate, and even more stringent rules—possibly at the constitutional level—are needed to assure that the flat rate remains flat.

Importantly, a universal application avoids the perverse political alliance with respect to government spending mentioned earlier. In fact, a constitutionally guaranteed flat rate creates a healthy alliance among income earners at all levels and against elected officials who, under other tax arrangements, could more easily gain political advantage through targeted government spending to be financed by selectively adjusting the tax rates. Taxpayer solidarity as a check against increased taxing and spending should be seen as the *sine qua non* of the case for a flat tax.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Flat Tax in Perspective

Currently we have a big, complex, and inefficient, progressive tax. It is folly to think that the "complex and inefficient" derive significantly from the "progressive." The "complex and inefficient" derive from the "big." Given the efficiency and adaptability of the market, there is probably no knee-of-the-curve below which the tax take can be declared "small." But 10 percent can be declared smaller than 17 percent, and, at any rate, opportunities for further reform still exist.

TANSTAABST. Revenue-neutral tax reform is no solution. The smaller the tax, the greater the prospects for simplicity and efficiency. And a flat rate may be the best means of keeping a small tax from becoming a big one. □

1. Michael K. Evans, *The Truth About Supply-Side Economics* (New York: Basic Books, 1983).

2. Robert E. Hall and Alvin Rabushka, *The Flat Tax*, Second Edition (Stanford, Cal.: Hoover Institution Press, 1995 [First Edition, 1985]).

3. Harry Browne, *Why Government Doesn't Work* (New York: St. Martin's Press, 1995), pp. 182–83.

4. Not long after his campaign book was distributed, Browne began advocating a complete abolition of the income tax and arguing that essential government services could be funded by (1) existing tariffs and excise taxes and (2) the proceeds from the sale of government assets, such as land holdings in the western states.

5. Individuals would pay taxes only on wages, salaries, and pensions; business firms would be allowed to fully expense investment, which is the present-value equivalent of allowing them to exempt the competitive yield on those investments. Taken together, these provisions, which have the effect of excluding interest income (or, equivalently, saved income) from the tax base, convert the income tax to a consumption tax.

6. Critics of interventionist policies may be tempted to embrace supply-side theory as the antithesis of Keynesian theory, which focuses almost exclusively on demand. However, a critical assessment of both theories suggests a more balanced view: On analytical issues (How do markets work?), we should be both-siders: supply and demand. On policy issues (What kind of bias should be built into our tax system?), we should be neither-siders.

7. Robert E. Hall and Alvin Rabushka, "Simplify, Simplify," in Edwin Mansfield, ed., *Leading Economic Controversies of 1996* (New York: W. W. Norton and Company, 1996). Reprinted from the *New York Times*, February 8, 1995. See also, Hall and Rabushka, *The Flat Tax*, p. 55 and *passim*.

Cutting Marginal Tax Rates: Evidence from the 1920s

by Gene Smiley

Recent political debates have raised the issue of adopting a flat marginal rate federal income tax. Though the marginal rate would be flat, the addition of a generous personal exemption would make the average personal income tax rate rise as it approached the fixed marginal rate of, say, 17 or 20 percent. This issue has generated considerable controversy in political debates and in the press. Among the criticisms leveled at a flat marginal rate tax system are that, contrary to proponents' claims, a flat marginal tax rate will provide a windfall of after-tax income for the already wealthy, worsen the distribution of income, and exacerbate the already swollen federal government deficits. Supporters have usually concentrated on extolling the virtues of reducing the distortions caused by rising marginal tax rates and of encouraging greater entrepreneurial activity.

Ideally, there would be no personal in-

Dr. Smiley teaches at Marquette University.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

come tax. The history of the debates over an income tax in the 1890–1911 era makes it clear that an income tax was viewed by its advocates as a means to redistribute income and wealth. It has remained this way as indicated by the vestiges of the progressive marginal rate structure which remain in the code. Such a system leads to an emphasis on obtaining more through political redistribution rather than the expansion of economic activity. And by separating the perceived benefits of a governmental activity from any taxes dedicated to supporting that activity, the income tax made it easier to expand government and increase taxes.[1] The creation of a federal income tax system aimed at the redistribution of income as much as creating a new source of federal tax revenues was one of the worst mistakes in American history.

The Tax Cuts of the 1920s

There are three periods where there were significant tax rate cuts which moved toward a flatter tax rate structure: the 1920s, the 1960s, and the 1980s. All exhibit some of the same characteristics, but the tax cuts of the 1960s were smaller than those of the 1920s, and in the 1980s the sharp increases in tax rates for the Social Security system partially offset the cuts in the federal income tax rates.

The first permanent federal income tax was enacted in 1913, and during the First World War there were dramatic increases in the rates in an attempt to generate increased tax revenues. At $4,000 net income, the marginal rates rose from 1 percent in 1915 to 6 percent in 1918; at $25,000 net income from 2 percent to 23 percent; at $100,000 net income from 5 percent to 60 percent; and, at $750,000 net income from 7 percent to 76 percent. The rates were reduced in 1922, 1924, and 1925. By 1925 the highest marginal rate was 25 percent for $100,000 and more net income. By the late 1920s only about the top 7 to 8 percent of Americans were subject to federal personal income taxes.[2] Though the marginal rate was not constant, the changes were close enough to that which would occur with a flat rate tax that the results of the tax cuts of the 1920s can suggest what would happen with the adoption of a flat rate federal income tax.

Tax Cuts for the Wealthy?

A common criticism of the proposal for a flat marginal rate tax is that it would generate a windfall for the wealthy and create greater inequalities in income distribution. Such charges were also made in the 1920s, 1960s, and 1980s. In the 1920s, tax rates were reduced much more for the higher-income taxpayers because, obviously, they had much higher marginal tax rates in 1918. For example, the marginal income tax rate was reduced 51 percentage points (76 percent to 25 percent) between 1918 and 1925 for taxpayers with at least $750,000 of net income, while the reduction for a taxpayer with $6,000 net income over that period was only 10 percentage points (13 percent to 3 percent).[3] However, the relative reduction (decrease as a percent of the 1918 marginal tax rate) was somewhat larger for the lower-income taxpayers than for the higher-income taxpayers.

More importantly, the reduction in tax rates shifted the effective burden of taxation. When rates had been increased between 1915 and 1918 the higher-income taxpayers had found various ways to shelter their income from taxes. At the same time as the number of returns in the lower net-income brackets rose as exemptions were reduced, the number of returns in the higher-income brackets fell. As examples, for the $500,000 to $1,000,000 net income class, the number of returns fell from 376 in 1916 to 178 in 1918, and for the $250,000 to $500,000 net-income class the number of returns fell from 1,141 to 629 over the same period. The result was that the share of income taxes paid by the higher net income tax classes fell as tax rates were raised. With the reduction in rates in the twenties, higher-income taxpayers reduced their sheltering of income and the number of returns and share of income taxes paid by higher-income taxpayers rose. For example, the share of

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

total personal income taxes paid by taxpayers with net incomes of $1,000,000 or more rose from 5.75 percent in 1923 to 15.9 percent in 1927. For taxpayers with net incomes of $250,000 to $500,000 their share of total personal income taxes rose from 6.82 percent in 1923 to 12.40 percent in 1927. The share for taxpayers with net incomes of $100,000 to $250,000 rose from 15.7 percent in 1923 to 21.91 percent in 1927. However, taxpayers with net incomes of $25,000 or less paid 36.22 percent of all personal income taxes in 1923 but only 12.83 percent in 1927. Thus, cutting tax rates *effectively* shifted the tax burden from the lower-income taxpayers toward the higher income taxpayers.

The assertion that the tax cuts would primarily benefit higher-income taxpayers was tied to the contention that this would create more income inequality. It has always seemed contradictory to me to argue that allowing a person to retain more of the income he or she generated would *create* more income inequality, but that has been the common contention. The conventional measures did show significant increases in income inequality during the twenties but there were problems with these measures. They were developed from the income reported on income tax returns and separate estimates of total income in the economy. However, as tax rates fell during the twenties, higher-income individuals began shifting wealth so that less of their income was sheltered from taxes. A portion of the greater income gains of the higher-income individuals represented not *additional* income but income from wealth which was shifted from tax shelters to assets subject to taxation. Correcting for this significantly reduces the rise in income inequality during the twenties.

What of the rise in income inequality that did occur? Individuals receive earnings from the productivity of their capital investments and land as well as their labor. They also receive income in the form of the realized gains in the values of their assets. The values of financial assets, particularly stocks, began to rise by the mid-twenties and this culminated in the great stock market boom of the late twenties. To see what effect this had, I calculated income shares which excluded realized capital gains, and when this was done, essentially all of the rise in income inequality in the twenties disappeared.

Thus, this evidence suggests that the dramatic tax cuts associated with moving toward a flatter rate tax structure would not provide windfalls of income for the wealthier taxpayers. It would encourage them to shift wealth from tax-sheltering investments to taxable investments to receive larger after-tax returns. The movement of economic activity out of lower return tax sheltering into higher return taxable assets will create more efficiency and make people in the society better off.

Larger Government Budget Deficits?

Another argument frequently thrown at the supporters of a flat marginal rate income tax is that it would worsen the annual deficits of the federal government. This would occur because expenditures would continue at the same level while revenues would decline. Once more we can examine evidence from the twenties which is related to this. With the end of the First World War the federal government's expenditures dropped sharply, though not to the prewar levels, and budget surpluses were created. There were calls to reduce the income tax rates to direct investment into more appropriate channels rather than into activities which were primarily directed to tax avoidance, and to reduce the widespread legal tax avoidance by the upper-income taxpayers. For example, Andrew Mellon, Secretary of the Treasury, reported that when William Rockefeller (John D.'s brother) died in 1922 he held less than $7,000,000 in Standard Oil bonds but over $44,000,000 of wholly tax-exempt securities. The inability of Congress to find legislation to effectively reduce this tax avoidance was one force leading to the twenties' tax cuts.

The first of the major tax cuts was passed

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

in November of 1921. On average it reduced marginal personal income tax rates by 13.8 percent, and this led to a decline in real total federal personal income tax revenues of 4.3 percent. The second major tax cut was approved in June of 1924 and it reduced marginal income tax rates by an average of 7.5 percent. This tax cut lead to an *increase* in real total federal personal income tax revenues of 5.9 percent. The final major tax cut was introduced in December 1925 and enacted in February 1926. It applied retroactively to 1925. On average marginal personal income tax rates were reduced 33.6 percent by these changes. Rather than falling, real federal personal income tax revenues increased by 0.5 percent with this large tax cut.

The evidence clearly indicates that, in general, tax revenues rose with the tax cuts of the twenties. The federal government's budget surpluses were not reduced with the final two tax cuts and, over the course of the twenties, these budget surpluses allowed the federal debt to be reduced by 25 percent.

Conclusions

The flat marginal rate income tax may never be enacted. Many people, and this certainly includes many politicians, believe that it is only "fair" that higher-income individuals face higher *marginal rates* of income taxation. The tenacity with which supporters of progressive tax rates cling to this idea is indicative of their redistributionist philosophy. It also indicates their refusal to face reality. The tax cuts of the twenties as well as every major income tax cut has resulted in an *effective* shift of the tax burden from lower- to higher-income taxpayers. As the twenties show, it does not have to worsen the government's deficit. Economic growth in the twenties surged with the tax cuts, and prices were nearly stable while unemployment rates averaged around 4 percent.[4] The government ran surpluses which allowed it to reduce the federal debt by 25 percent. The decreases in marginal tax rates led individuals to pull their investments out of ones designed to avoid taxes—investments such as tax-exempt municipal bonds, personal service corporations, and other avenues to avoid distributing corporate profits. The result was a rising tide of investment in new, growing, and sometimes risky businesses and industries such as "radio," consumer household electric appliances, electric utilities, airplane manufacturers, rubber tire manufacturers, supermarket chains, and so forth. The 1920s were a vibrant, growing decade, and the tax cuts of the 1920s certainly were an important part of what brought this about. □

1. See Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987).

2. Personal exemptions were also increased during the decade.

3. Much of the following discussion relies upon two sources. Gene Smiley and Richard H. Keehn, "Federal Personal Income Tax Policy in the 1920s," *The Journal of Economic History*, Vol. 55 (June 1995), pp. 285–303; and, Gene Smiley, "New Estimates of Income Shares During the 1920s" presented at "Calvin Coolidge and the Coolidge Era," a library of Congress Symposium on the Politics, Economics, Social, and Cultural History of the United States in the 1920s, October 6, 1995, and forthcoming in a conference proceedings volume.

4. Between 1919 and 1929 real per capita GNP grew 2.61 percent per year. (1920 was the first year of the 1920–21 depression and is not an appropriate starting point.) For comparison, real GNP per capita grew 1.48 percent per year from 1950 to 1959, 3.26 percent per year from 1960 to 1969 (with significant tax rate cuts), 2.68 percent per year from 1970 to 1979, and 2.09 percent per year from 1980 to 1988.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Government's Hostile Takeover

by Raymond J. Keating

In the history of modern-day capitalism, there have been occasional misplaced concerns regarding corporate raids or hostile takeovers. Worries about corporate instability, excessive debt, and job losses mount when an individual or firm attempts to seize the reins of a corporation against the wishes of current management.

In reality, of course, hostile takeovers are a source of dynamism in a free enterprise system—often removing moribund, inefficient management, and finding ways to add value and increase production. These takeovers are an integral, healthy aspect of capitalism's ongoing creative destruction.

But there is another kind of hostile takeover that is distinctly anti-free enterprise in nature and worthy of harsh criticism: the federal estate tax, along with the gift and generation-skipping taxes. After working hard, paying taxes, and building a business over a lifetime, an individual faces the prospect of steep estate taxes—a government hostile takeover, if you will. And a primary target for government raiders under the guise of the estate tax are family businesses.

To fend off such government takeovers, family-business owners channel large amounts of resources into relatively unproductive endeavors in a struggle to pass the business on to the next generation. Legions of accountants explore creative ways to shield assets from death taxes. Indeed, people even purchase life insurance for the sole purpose of paying estate taxes. Insurance is not cheap, however, and remains out of reach for many individuals working hard to keep their businesses afloat. If estate-tax insurance is purchased, it means that resources have been diverted away from productive, market-driven endeavors. Buying insurance to cover the costs of taxation is a clear indication of a tax system gone awry.

Often, estate taxes wind up killing family-owned businesses. Sixty percent of family-owned businesses fail to make it to the second generation, and 90 percent do not make it to the third generation.[1] Perhaps most damaging is that under the estate tax, the government strips a company of much-needed capital at the worst possible juncture—under a change of ownership and oversight. Most businesses simply never recover.

Disincentive for Investment

Heavy estate taxation also acts as a disincentive for investment and entrepreneurship, just as onerous income and capital gains taxes do. With as much as 60 percent of a business enterprise essentially slated for a government takeover, there remains little incentive for individuals to continue to invest and expand a family business when the owner reaches a certain age. Rather, business owners possess every incentive to sell their family businesses before death to spare their heirs the costs and burdens of hostile estate taxes.

Federal estate tax rates range effectively from 37 percent to 55 percent, plus an additional 5 percent on very large estates. It is important to understand that this is not 55 percent of income, it is 55 percent of all assets. (The first $600,000 is exempt from taxation.) The gift tax is levied at the same rates as the estate tax, excluding $10,000 per recipient annually. In addition, a generation-skipping tax is imposed on gifts and bequests to grandchildren. The generation-

Mr. Keating is chief economist with the Small Business Survival Foundation and co-author of D.C. By the Numbers: A State of Failure.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

skipping tax is levied at an additional flat rate of 55 percent on amounts in excess of $1 million.

As is always the case when government pushes tax rates higher, the taxed economic activity dwindles, and actual tax revenues fail to meet the expectations of government bureaucrats. Estate and gift taxes account for just a little more than one percent of total federal government receipts. Since 1974, there has been virtually no inflation-adjusted increase in federal estate and gift tax revenues. In addition, a good portion of these revenues are eaten up by the federal government's compliance efforts related to estate and other death taxes. Some estimates say as much as 75 percent of estate and gift tax collections are offset by the costs of the IRS, the Treasury Department, and litigation.[2]

In the 1970s, Australia and Canada repealed their estate taxes. While not exactly bastions of free-market economics, both nations came to realize that estate levies hurt investment, economic growth, and job creation.

In the most extreme cases, the U.S. tax structure has pushed many upper-income individuals to reject their U.S. citizenship and take up official residence in less taxing lands. Again, estate taxes play a significant part in such decisions. *Forbes* magazine ran a cover story about such individuals entitled "The New Refugees" in its November 21, 1994, issue. While some might say, "Good riddance to such traitors," the economics underlying the situation is clear. Strong incentives to flee the U.S. tax burden exist.

A simple question arises: Why does the United States impose such a punitive tax code to the point where productive individuals will take the dramatic step of renouncing their citizenship in order to prosper elsewhere? Taxing productive individuals out of a country is not new. The twentieth century offers numerous examples, such as the Soviet Union, as well as Great Britain from the end of World War II to the late 1970s. But truly oppressive levels of taxation date back centuries. In the late eighteenth century, Adam Smith warned in *The Wealth of Nations*:

> The proprietor of stock is properly a citizen of the world, and is not necessarily attached to any particular country. He would be apt to abandon the country in which he was exposed to a vexatious inquisition, in order to be assessed to a burdensome tax, and would remove his stock to some other country where he could either carry on his business, or enjoy his fortune more at his ease. By removing his stock he would put an end to all the industry which it had maintained in the country which he left.

This warning takes on even greater significance considering today's worldwide competition for increasingly mobile labor and capital.

In the private sector, a hostile takeover often means that the owners (i.e., shareholders) of the targeted company will benefit as their shares in the firm increase in price. Under the government's hostile takeovers of thousands of family-owned businesses each year via death taxes, owners are decimated as the government often lays claim to more than half the company's assets. Resources are funneled away from productive, private-sector ventures to dubious unproductive government programs.

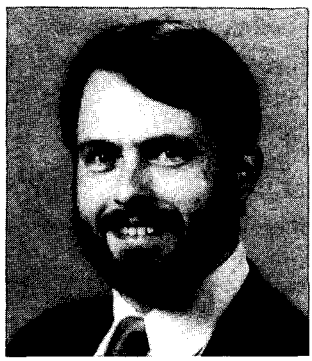
Envy—leading to wage class warfare and failed government redistribution schemes—stands as the only justification for estate taxes. But envy is a poor foundation upon which to base a tax code. Sound economics is preferable.

Estate taxes and death strip businesses of much-needed capital; create disincentives to invest, save, and take risks; reduce economic growth and job creation; and are expensive to administer. The time has come to end government's hostile takeovers of family businesses and assets. If not, the government will continue to destroy America's free enterprise system and our great heritage of family-owned businesses. □

1. Grace W. Weinstein, "Keeping the Family Business in the Family," *Investor's Business Daily*, April 12, 1995, p. 1.

2. Testimony of the Small Business Council of America before the U.S. House of Representatives Committee on Small Business on January 31, 1995.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



Regulatory Overkill

There may have been a revolution in the way Washington works over the last two years, but its effects remain hard to discern. All told, estimates Americans for Tax Reform, government is costing U.S. citizens $3.38 trillion this year. In effect, only on July 3—Cost of Government Day—did people stop working for government. People effectively spent more than half of the year, 184 and a half days, on their jobs before earning anything for themselves.

The burden of direct spending—$2.45 trillion for federal, state, and local governments—is obvious enough. Perhaps more incredible are the hidden costs. Federal regulation, for instance, runs Americans $739 billion annually. Another $196 billion is consumed by state regulation, particularly workers' compensation laws and an out-of-control tort system. What makes these latter costs so insidious is that the financial bill is rarely known when the legislative bill is enacted. For instance, Congress's politically popular move to help the disabled, the Americans with Disabilities Act, will cost counties alone $3 billion by 1998.

The overall result is an incredible regulatory sprawl. Last year, report Melinda Warren and Barry Jones of the Center for the Study of American Business, the federal regulatory workforce hit its highest level ever, 130,929—28 percent more than the decade before. The number of pages in the Federal Register, Washington's compendium of proposed rules, was up an astonishing 68 percent over the same period.

Nor is the problem simply the quantity of regulation. The Independent Commission on Risk Assessment and Risk Management recently criticized federal controls as "cumbersome," "fragmented," bedeviled by "confusion and inefficiency," and subject to a "patchwork" of inconsistent laws. Some regulations today are not based on "realistic high-exposure scenarios," that is, the dosages people face. The language of the Delaney Clause, which bans carcinogenic products, is "inconsistent with modern analytic detection methods and current scientific knowledge." And so on. In short, the entire federal rule-making process is seriously defective.

Similarly critical are Heritage Foundation analysts John Shanahan and Adam Thierer, who report in a recent study that the government fails to prioritize risks, recognize that not all risks are avoidable, and understand how regulations can actually cost lives. There are, explain Shanahan and Thierer, "real costs and trade-offs associated with every regulatory decision."

This is an insight that many government officials obviously lack. When Congress enacted Corporate Average Fuel Economy standards, it encouraged automakers to downsize their automobiles in order to achieve better mileage. However, since

Mr. Bandow is a senior fellow at the Cato Institute and a nationally syndicated columnist. He is the author and editor of several books, including The Politics of Envy: Statism as Theology (Transaction).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

NOTES FROM FEE

The Foundation for Economic Education
Irvington-on-Hudson, New York 10533
Tel. (914) 591-7230
Fax (914) 591-8910
E-mail: freeman@westnet.com

October 1996

Economic Ends and Means

Most Americans are in full agreement on the basic goals of economic policies. They see eye to eye on the desirability of economic growth and prosperity, full employment, stable prices, a healthy environment, social peace and harmony. They even agree on the need for aid and support of the poor and disadvantaged. They concur on economic ends, but differ sharply on some—but not all—of the means that should be used to achieve those ends.

Some Americans eagerly take an "activist" line. They would use the full weight of the political apparatus to mandate, coerce, punish, tax, spend, engage in deficit spending, and print money in order to attain their ends. They call on government to actively pursue the economic ends. Other individuals, while equally committed to the same goals, would seek to improve conditions by relying less on politics. They would reduce involvement of government in the economy, remove the political constraints, and shun artificial government stimulants. They place their confidence in the free and efficient operation of the competitive market order.

The difference between the two camps springs from different perceptions and conceptions of social life. According to the most popular social philosophy of our age, the market order is torn by an irreconcilable conflict between the interests of "capital" and those of "labor." Private property in the means of production and individual enterprise benefit only a small class of capitalists while they harm the large majority of working people.

This conflict philosophy which owes its great popularity to the writings of Karl Marx and his American admirers is espoused not only by card-carrying Marxians, but no less by many professed anti-Marxians and self-styled champions of free enterprise. It is the official social philosophy of the major political parties and their candidates. They may disagree on basic problems of abortion and drug abuse or on some incidental issues such as the capital gains tax or the allowable rate of depreciation, but they all espouse the thesis that the economic system breeds economic conflict and, therefore, should be abolished or at least be carefully managed in the name of social justice. The communists and socialists seek to abolish the system summarily; their ideological cousins readily accept the conflict doctrine, but deplore the presumed conflict, and want to alleviate it with the reforms they recommend.

In recent decades the economic conflict dogma has provided the intellectual wherewithal for derivative doctrines of racial conflict, gender conflict, and the youth conflict of the 1960s and 1970s. They, too, divide society in distinct classes of exploiters and victims who form vocal organizations that press their charges and plead their cases in the halls of Congress. **To listen to the economic debates in the**

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Congress of the United States is to give ear to furious exploitation charges and the wailing of an assembly of victims.

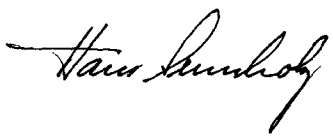
We reject and repudiate the conflict dogma. The private property order, we believe, is a harmonious order devoid of social and economic conflict. In the words of Adam Smith, it is guided by an "Invisible Hand" which turns everyone's pursuit of private gain into public benefit and thereby harmonizes the interests of all members of society regardless of class, race, gender, or age. What makes for this harmony is the higher productivity of cooperation and division of labor. Two individuals working together are more productive than two working alone. Two hundred million Americans working together, specializing in their productive tasks and engaging in large-scale production, are more productive per head than a smaller number. Thanks to their cooperation, the supply of goods and services tends to multiply, which improves their living and working conditions. It removes all traces of social conflict.

It is in the interest of every individual to preserve and extend social cooperation and division of labor. In freedom and the private property order, everyone earns the money equivalent of his contribution to the production process. Even in the employ of a profit-seeking capitalist, the competition among employers, the freedom of workers to sell their labor to the highest bidder, and the freedom to be self-employed, all these characteristics of the market order assure that everyone receives his or her full and fair wage. There can be no exploitation in an unhampered labor market.

The "activists" who would use the political apparatus to command and direct economic life summarily reject such explanations. They usually liken economic life to life in a jungle in which one creature preys on another and only the strong survive. To speak of inexorable economic principles that guide human life and of the harmony of interests of all human beings, to the activists, is to suffer from an illusion, engage in wishful thinking, or even wink at cruel exploitation of the weak and sick. They are quick to question the very motives of anyone who casts doubt on the advisability of the use of the political apparatus in economic life. Their spokesmen in the media do not hesitate to cast slurs upon the disciples of harmony as the foes of economic growth and prosperity, as the partisans of inflation and unemployment, the advocates of a polluted environment, and the enemies of peace and harmony. To disagree on the means to be employed is to stand condemned also on the ends sought.

The conflict reporters who may call themselves "liberals" or "moderates" may go even farther. They may spurn the unhampered market order also on ethical grounds as an unfair and amoral system. To them, the criterion of morality is the people's will, wish, and intent as they manifest themselves in majority votes. They place a high value on individual obedience and on restraints equally imposed on individuals by majority decision. The state is their instrument of coercion, the supreme arbiter of fairness and morality.

In reality, the opinion and judgment of the majority are not the final proof of what is right. Wisdom and justice are not always on the side of the majority. In fact, individuals usually live in greater danger of having their rights invaded and their freedom restrained by the commands of an overweening and self-righteous majority than by the machinations of entrepreneurs and capitalists. Evil is evil; it is none the better for being committed on behalf of the majority.



Hans F. Sennholz

You cannot correct all the evils of the world, nor relieve all the poverty in the world.

You cannot comfort all in distress, nor support all the underprivileged.

But you can stand by FEE which brings the light of freedom to the world.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

NEW FROM FEE !

Required reading for all who have misgivings about today's fiat money:

Economics of a Pure Gold Standard

by Mark Skousen

"The excellence of the gold standard is to be seen in the fact that it renders the determination of the monetary unit's purchasing power independent of the policies of governments and political parties."

—**Ludwig von Mises,** ***The Theory of Money and Credit***

Gold was once dismissed as a "barbarous relic." Now, as uneasiness about the stability of paper money grows, so does interest in the yellow metal. Some central bankers have even confessed to monitoring the free-market price of gold and using it as a barometer of economic stability. There is also evidence that many of these bankers use the price of gold to set monetary policy.

In the new third edition of **Economics of a Pure Gold Standard**, world-renowned economist and author Mark Skousen explains why gold is honest money and how a return to gold may reestablish economic stability. Skousen not only makes the case for gold, but also examines the pros and cons of other monetary standards.

Professor Skousen is editor of *Forecasts & Strategies*, now one of the largest investment/economics newsletters in the United States. He teaches economics and finance at Rollins College, Winter Park, Florida, and is the author of sundry books including: *The Structure of Production*, *Mark Skousen's Thirty-Day Plan to Financial Independence*, *Economics on Trial*, and *Scrooge Investing*.

Published by
The Foundation for Economic Education, Inc.
30 South Broadway, Irvington-on-Hudson, NY 10533

ISBN 1-57246-052–0
Paperback $14.95
Available in bookstores nationally, or call (800) 452-3518

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

October Warehouse Sale

Great values for bargain hunters! Offer ends October 31, 1996.

	Regular	Sale
The Freeman Classics Series		
American Unionism: Fallacies and Follies The intellectual origins and economic implications of the union ideology.	$14.95	**$6.95**
Bankers and Regulators The political creation and manipulation of the American banking cartel.	$14.95	**$6.95**
Free To Try The entrepreneur is celebrated as the moving force of economic activity and progress.	$14.95	**$6.95**
Politicized Medicine The concentrated effort of politicians to socialize American medical care.	$14.95	**$6.95**
Private Property and Political Control Private property as a social institution which legislators and regulators like to expunge.	$14.95	**$6.95**
The Freeman Library Series		
The Farm Problem The policies which continue to plague American agriculture.	$9.95	**$4.95**
The Freedom Philosophy An anthology of fourteen *Freeman* essays on the political, economic, and moral aspects of freedom.	$9.95	**$4.95**
Robert J. Bidinotto (editor)		
Criminal Justice? The Legal System vs. Individual Responsibility A thorough review of the crime crisis with essays on the causes of crime, the results of rampant criminality, and hard-headed solutions.	$15.95	**$5.95**
John T. Flynn		
Forgotten Lessons: Selected Essays of John T. Flynn A collection of John Flynn's best essays on the growth of the State in twentieth-century America.	$14.95	**$6.95**
Raphael G. Kazmann		
The Ten Commandments: An Engineering Evaluation A unique examination of the Decalogue as an operating system for society.	$3.95	**$1.95**
Edmund A. Opitz (editor)		
Leviathan at War A collection of essays which reveal the link between big government, interventionism, and war.	$14.95	**$6.95**
Andrew Dickson White		
Fiat Money Inflation in France The classic history of the French hyperinflation from 1790 to 1796.	$7.95	**$3.95**

Booksellers and others who wish to order in quantity should contact Renée Oechsner, at (914) 591-7230.

- Postage and handling: Please add $3 per order of $25 or less; $4 per order of $26-$50; $5 per order of more than $50.
- Send your order, with accompanying check or money order, to FEE, 30 S. Broadway, Irvington-on-Hudson, NY 10533.
- Visa and MasterCard telephone and fax orders over $10 are welcomed: (800) 452-3518; fax (914) 591-8910.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

small cars lose when hit by big ones, the result has been increased injuries, and deaths in auto accidents.

Other examples abound. Studies suggest that chlorine carries with it a slight risk of cancer. Therefore, Peru stopped chlorinating drinking water, only to suffer a massive cholera outbreak that killed 7,000 people. Similarly, while the banned pesticide EDB poses a (very low) cancer risk, the food fungus formerly destroyed by EDB presents a greater cancer danger.

Switching from disposable to washable diapers saved landfill space. But doing so also increases pesticide use (to grow cotton), hot water consumption (to wash the diapers), and air pollution (from the trucks of household pickup services). In fact, many forms of recycling offer similar negative consequences. Paperboard burger containers can be recycled, but polystyrene clamshells generate less pollution and use less energy when produced.

There is another more indirect trade-off. As Shanahan and Thierer put it, "Wealth is health." A more prosperous society will have better medicine, safer transportation, more durable housing, and less dangerous work. Thus, anything that reduces people's incomes is likely to, at the margin, make people less safe. In fact, the White House Office of Information and Regulatory Affairs (OIRA) estimates that every extra $7.5 million in regulatory spending results in one lost life as mortality rates rise.

Yet today the government regularly regulates as if money were free and there were no health trade-off. Common are the government rules that cost more than they are worth. Kenneth Chilton and Courtney La Fountain of the Center for the Study of American Business figure the 1990 Clean Air Act amendment governing ozone generates between three and five times as many costs as benefits.

Many rules offer dramatically worse deals. For instance, OSHA controls on benzene would require the expenditure of $168 million to prevent one death. The EPA's standards for dichloropropane would expend $653 million to avert one death. And OSHA's regulations on formaldehyde would cost an incredible $119 billion before saving even one life.

Using the OIRA estimate, 22 people are dying for every one saved by the benzene rule. The ratio is nearly 90-to-one for dichloropropane. The formaldehyde rules cause 1,600 times as much harm as good. Shanahan and Thierer suggest another way of looking at the so-called opportunity cost of these controls. In place of the benzene standard, 3,064 police officers could be put on the street. The dichloropropane rule costs the equivalent of 4,353 fire trucks. And pharmaceutical companies could develop 331 new drugs for the money necessary to save one person with the formaldehyde restrictions. Bargains these regulations are not.

America's regulatory behemoth requires systemic reform. The starting point must be Congress. Lawmakers should stop attempting to micromanage virtually every aspect of society. It is time for them to realize that however imperfect the market, the political process is far more flawed. Even legislation resulting from the best of intentions, like the Americans with Disabilities Act, usually ends up having expensive and perverse consequences.

Congress also needs to stop granting blank checks to agencies to implement legislation. Observes former Senator Malcolm Wallop: "We get to vote for senators, congressmen, and presidents. But we have less and less control over our lives because we have no control over the people who make the rules by which we live—about how we make and sell our products, which groups get what preferences, how we can use our land." Legislators need to stop delegating their lawmaking powers to unelected bureaucrats. Congress should allow the relevant agency to draft only a proposed, not a final, rule. Then Congress should have to vote on the measure before it becomes law.

Responsibility is the key to such reform. As attorney Philip Howard put it, "When Americans can identify who is responsible for what, sensible decisions will begin popping out of our schools and other institutions like spring flowers after a long winter."

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

While Howard may be a bit too optimistic, he is right about holding lawmakers accountable for their decisions. Today legislators can hide behind faceless bureaucrats. Were the former forced to pass judgment on the latter's work, this political free lunch would disappear.

Any remaining rules should be flexible and rely on market forces. Government should be made to pay when it imposes unnecessary costs on innocent people—by effectively taking their property through regulation, for instance. More effective cost-benefit studies should be required before regulations can take effect. Officials need to improve their methods of risk assessment and seek to insulate the scientific investigative process from political pressure. Finally, regulators need to set priorities and consider trade-offs.

"Regulations can kill, especially when they are formulated as a rash response to hypothetical risks, and divert resources from other activities that would reduce real risks," warn Shanahan and Thierer. The problem of over-regulation is not just the added financial cost, which is huge, but the large number of lives lost. When politicians stand in the way of meaningful regulatory reform, they are not only wasting billions of dollars. They are also killing hundreds or thousands of people—with kindness. □

Why Some Federal Jobs Should Be Abolished

by Tibor R. Machan

It is a sad spectacle when political leaders lack a coherent framework by which to explain to the public why various official actions being taken are required and, indeed, just. This is the predicament faced by many in Congress when parts of the federal government shut down back in late 1995.

The outcries of employees and their lobbyists should not be the main motivating force behind what the federal government does. The reason for this is simple: the debate should be about whether those who get paid from the moneys collected by the IRS and other taxing agencies really ought to have their jobs in the first place.

Imagine a situation in which a country is undergoing a major revolution—in this case it has finally abolished apartheid. (Of course it isn't a hypothetical case but some may not remember recent history, so I ask them to use their imaginations as a substitute.) Because of such a revolutionary event, thousands of government employees who have for decades worked in positions related to apartheid lose their jobs. (You could picture something closer to home: the abolition of the military draft or the repeal of prohibition. Or you could make it somewhat more historical and far more drastic: the demise of the Third Reich or the Soviet Union, where thousands of people worked

Dr. Machan teaches political philosophy at Auburn University. His most recent book is Private Rights and Public Illusions *(Transaction Books, 1995).*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

in concentration camps and upon the revolutionary change lost their jobs.)

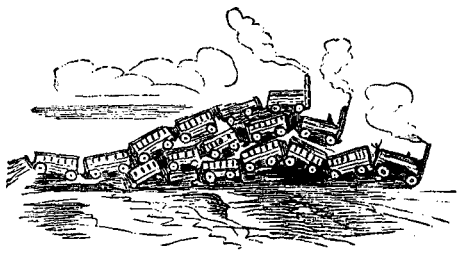
If one can clearly identify these jobs as serving evil purposes or resting on evil policies, there would be no trouble at all explaining to people why the jobs had to be lost, why those who held the jobs in question ought to seek employment elsewhere, doing decent work, pursuing honorable careers. And there should be no problem showing that many thousands of jobs being held down these days by federal employees—involving the wrongful collection and redistribution of other people's earnings, forcibly regulating the lives and livelihoods of millions of people administering properties that government has no right to control, and so on—are morally wrong. They do not, of course, involve the blatant, drastic evils we know were being assisted by state workers in South Africa, Dachau, or the gulags but they are, nonetheless, morally insidious. When the public finally elects politicians hoping they can appreciate the evil of such works, it is the business of these politicians to work for their abolition.

Unfortunately, the current crop of national leaders calling for cuts in the scope and size of government are ill-equipped to make the moral case for the abolition of these jobs. All they can say is that slowing down the pace at which the federal government perpetrates its questionable business is a necessary move in a political gambit. All they can talk about is the need for coming up with a balanced budget plan. Of course, if that is all that's at stake, the employees whose jobs are being put on hold and their advocates can come back with the outcry that their lives are being played with. This makes supporters of government downsizing look callous, heartless, and precisely as mean-spirited as the critics claim they are.

In one's personal life one tries to balance his budget but usually if emergencies arise, one is willing to go into debt or even extend one's indebtedness. It would be unthinkable to refuse to take a child to the doctor just because it means that one's indebtedness would have to increase. Cost considerations alone are not morally hefty enough to carry the argumentative weight needed to make the policy of downsizing government morally acceptable. Not that economic imprudence is good policy in one's personal life, in business, or in government. But there are clear cases where such prudence is not the highest virtue. That is when compassion, generosity, charity, or courage may trump considerations of prudence.

But if it is clear that what is at stake is the establishment of justice—which is to say, the abolition of federal government policies that rob from people, that intrude on people's lives, that violate the principles of government by the consent of those who are governed—then the answer to the loss of jobs would be that such jobs shouldn't exist in the first place. Those who have gotten used to living off stolen funds will have to rearrange their lives, period. They must not ask for compassion—justice is more important!

Unless some of our political leaders learn to be consistent in their call for justice for the American citizenry, rejecting the idea that it is acceptable to put millions of people—even the poor, elderly, and sick—on the payroll of a government funded by plunder, there will not be serious change in our society. And one consequence will be that not only will injustice continue but the system will ultimately go broke. □



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

What Is Multiculturalism?

by Eric Mack

Occasionally one thinks that, perhaps because it has become so tedious, multiculturalism has begun to pass from the scene. Unfortunately, such thoughts seem entirely too optimistic in light of the great extent to which multiculturalist slogans have become culturally and institutionally ensconced, the great emotional and financial stake that multiculturalists have in perpetuating their visions, and the degree to which, usually under false pretenses, multiculturalists are able to initiate new believers into their sect. So it probably is still of some value to offer a dissection and critique of the ideology of multiculturalism—a dissection and critique that focuses on the rotten core rather than the surface that is polished for marketing purposes.

Behind the mask of a benign "celebration of diversity" lies a deeply corrosive rejection of all general norms, rules, or truths. This rejection of general norms, both those dealing with knowledge and those dealing with morals, derives from multiculturalism's insistence that there are many essentially closed systems of perception, feeling, thought, and evaluation—each associated with some racially, ethnically, or sexually defined group. Thus, multiculturalism quite explicitly and appropriately sees itself as rejecting the Enlightenment belief in standards of reason, evidence, and objectivity, and principles of justice and freedom that apply to all human beings.

Dr. Mack is a professor of philosophy at Tulane University in New Orleans, Louisiana.

Cultural Relativism

Multiculturalism is, in effect, a dressed up and politicized version of cultural relativism—the doctrine that every group has its own distinct but equally sound patterns of perception, thought, and choice. According to cultural relativism, no one can validly object to beliefs and actions of any group which reflect that group's own indigenous worldview. While cultural relativists have always claimed to be friends of tolerance—indeed the only true friends of tolerance—this doctrine actually implies that no one can object to any group's intolerance, if intolerance is that group's *thing*. Neither the cultural relativist nor the multiculturalist can object to Mayan infant sacrifice, or Spanish Inquisitional torture, or Nazi genocide because each of these practices is validated by the perspective within which it arises. To criticize indigenous intolerance or any "culturally authentic" practice no matter how brutal or exploitative, one must apply general, trans-cultural norms which both cultural relativism and its multicultural descendent denounce as "imperialist." But multiculturalism's moral relativism precludes any such appeal and, hence, it precludes any affirmative case for tolerance.

In addition to its moral relativism, multiculturalism also proclaims (as the one great Objective Truth) that all truth, objectivity, and evidence are also relative. Each "culture" has its own truth, objectivity, and standards of reason and evidence. Thus, whatever beliefs any "culture" emits, they

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

are validated by the fact of their emission. This, of course, precludes any rational dialogue among individuals. Each individual is merely a representative of a certain biologically defined perspective with its own idiosyncratic, but self-validating, biases. Hence, each individual must agree with members of his or her own group and be unable to make rational contact with members of other groups.

By chanting his mantra of relativism, the multiculturalist can evade honest confrontation with all intellectual challenges. Consider the argument that multiculturalism cannot support tolerance since grotesquely intolerant social orders can be as true to their distinctive ways of perceiving, cognizing, and feeling, as any other social order. According to the multiculturalist mantra, this argument itself is merely an expression of one particular perspective, the Eurocentric—hence, "linear" and "logocentric" mode of perception and thought. Thus, this challenge, like all attempts at rational disputation, can be rejected by anyone who "doesn't feel that way about it."

Tolerance

In contrast to the multiculturalist, the genuine advocate of tolerance believes that, despite the profound differences among individuals, there are some fundamental general norms—including standards of rational discourse and norms that extend freedom and the protection of justice to all persons in virtue of their common humanity. Only such general norms provide a principled basis for rejecting the suppression of disliked opinion, speech, religious conviction, economic decisions, and so on. It is precisely to the extent that we articulate and comply with such rules that each of us, strange as we are to others and strange as many others are to us, are able to live at peace, indeed, in fruitful mutual advantage with one another.

Multiculturalism modifies cultural relativism in two important ways. First, it ignores cultures as ordinarily understood and focuses instead on biologically defined groups *within* our society who may be recruited into political alliances based on heightening their sense of alienation and victimization. Thus, as the perceived political opportunities dictate, the multiculturalist focuses on the supposed existence of *sui generis* Afrocentric, Female, Hispanic, Homosexual, and/or Native American modes of thought and feeling.

Multiculturalism is fundamentally anti-individualistic because it expects each individual to conform in his or her perceptions, thoughts, and assessments to those pronounced to be the authentic perceptions, thoughts, and assessments of that individual's group. All genuine blacks must share *the* Black perspective. All genuine women must share *the* enshrined Female perspective. All homosexuals must share *the* Homosexual perspective—and so on. Your thoughts are either the collectively constituted thoughts of your racial, ethnic, or sexual group or they are thoughts insidiously imposed upon you by the dominant White Male perspective. Group-think is the mark of authenticity. Multicultural "diversity" both radically cleaves humanity into disparate biological collectivities and radically homogenizes people within these collectivities. For the multiculturalist, diversity is merely superficial.

Multiculturalism's second modification of cultural relativism consists in its expulsion of one supposed worldview—what multiculturalism *misidentifies* as the White Male perspective—from the Eden of equally sound worldviews. All group perspectives are equal, but one is less equal than others. The supposed reasoning on behalf of this expulsion is that the so-called White Male worldview is uniquely guilty of commitment to common objective norms of thought and action. Hence, it is said, this rogue perspective uniquely stands in judgment of other worldviews, subjecting them to its wickedly colonialist epistemic and moral standards. Thus, this perspective—as befits its White, Male, heterosexual roots—is uniquely totalizing, aggressive, and victimizing.

In reality, of course, what is being condemned by multiculturalism is not some

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

idiosyncratic White male, heterosexual perspective, but rather the human enterprise of seeking, articulating, and employing general norms that help us to distinguish between the true and the false, the plausible and the implausible, the good and the evil, the permissible and the impermissible.

The irony is that multiculturalism wants to hew to its own judgments about the special defects of Western thought and the special injustice and oppressiveness of the liberal Western social and economic order while insisting that it cannot be expected to justify (or even identify) the philosophical or empirical premises of its own judgments. The excuse for this irresponsibility is the ritualistic claim that to accept these demands for justification is to succumb to the Eurocentric hegemony. Yet, at the same time, we are supposed to accept the truth of the multiculturalists' historical and cultural analyses and the verity of their all-embracing evaluations.

Multiculturalism presents us, then, with the spectacle of sweeping, confident, and impassioned moral, historical, economic, sociological, and aesthetic judgments and a simultaneous and often self-righteous refusal to take any intellectual responsibility for any of those judgments.

Was Hitler Evil?

In a campus debate a couple of years ago with an earnest multiculturalist, I strove to help her see that she could not both accept multiculturalism's relativism and continue confidently to proclaim the profound evils of various regimes. In desperation, I appealed to the instance of Hitler and Nazism. "Given this relativism," I asked her, "can you even assert that Hitler was evil?" "Well," she said after a moment of thought, "I'm not valorizing him."

The primary purpose of multiculturalist educational proposals is to instill in students and (increasingly) in employees and the population at large the demonology that the apparently benign, tolerant, liberal order is actually the most profoundly oppressive order ever to have existed. People are to be initiated into the delights of victimhood. They are to learn how to perceive themselves as victims (or victimizers)—not of superficial wrongs like murder, mayhem, and robbery—but of ever so subtle, exquisitely cunning, psycholinguistic domination. It is psycholinguistic domination, i.e., the "construction" of seductively hegemonic themes and discourses, that make the derivative evils of racial or sexual exploitation possible (indeed, inevitable). To recognize oneself as such a victim is to attain multiculturalist enlightenment and, not inconveniently, an all-purpose ticket for the increasingly lucrative multiculturalist gravy train.

Students especially are to be taught that arguments, doctrines, works of art, or policy are never to be evaluated on their own merits. For there is no such thing as the objective merit or demerit of an argument, doctrine, work of art, or policy. Rather, these and all the other products of the human mind are to be revealed as mere "valorizations" of power. They are to be deconstructed to disclose their inner character as instruments of repression—or, presumably in the case of the privileged construction known as multiculturalism, as an instrument of heroic resistance.

But is resistance objectively different from repression? Is resistance objectively better than repression? These sly questions might tempt the unwary multiculturalist back into the clutches of Enlightenment "discourse." But the well-versed multiculturalist can recognize the serpent with her alluring offer of knowledge and can, as his greatest act of resistance, doggedly close his mind.

Throughout the academy and eventually society at large, the multiculturalist demands that the classification of people by race, ethnicity, sex and/or sexual orientation be emphasized at every possible opportunity. Individuals are not to be seen or judged as individuals but *as tokens of* this or that tribe or caste. Since no one from one tribe (with the exception of white males) can be judged by members of any other tribe, each racial, ethnic, or sexual group must be

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

assigned its own *homeland*, its own reservation within the university and within the worlds of commerce (cf., set-asides) and government (cf., Lani Guinier).

Between the homelands comprising this new form of apartheid there can be, if multiculturalism is correct, no rational discourse, no rational evaluation, and perhaps not even mutual understanding. Given the premises of multiculturalism, there cannot even be any rational accommodation among the worldviews that are now supposed to be strategically united in their struggle against the White Eurocentric devil.

Multiculturalism is the esoteric form of virulent ethnic politics. Remove what the multiculturalists describe as Male Eurocentric dominance and what, in reality, is the residue of liberal tolerance and belief in the efficacy of rational investigation and debate, and multiculturalism will proceed to do for the liberal university and for liberal society what ethnic politics has done for Yugoslavia. □

The Bright Side of Failure

by Matthew Ragan and Walter Block

Everyone abhors failure, and rightfully so. No one wants to fail. Students want to succeed at their school work, employees want to succeed in their jobs, and athletes want to succeed on the playing field. Business people are the same. No firm tries to be unsuccessful; all businesses try to satisfy their customers in order to make profits. The inability to succeed means the loss of jobs, paychecks, and often, happiness. Yet economists recognize failure as essential to economic progress.

Those unfamiliar with economics look with shock and disbelief at those individuals who profess that efforts to guarantee success and prevent bankruptcy undermine economic growth and exacerbate economic problems. People tend to see only the short-run, immediate pain associated with failure and not the indispensable function of the failures allowed by economic freedom. Failure should be seen as a blessing in disguise; it directs the economy away from wasteful and unproductive activities, and toward greater prosperity. Policymakers who try to ensure economic success through legislation seem not to understand that an economy without failure cannot progress.[1]

To understand why business ventures fail, it is important to appreciate economic scarcity. The dictionary defines scarcity as an "insufficient amount or supply; shortage." There is a limit to the amount a society can produce and consume at any one time. Hence, people must make choices. Scarcity makes the prices of commodities such as land, labor, and materials so high that the less efficient producers cannot succeed. Resources tend to be allocated to produce the goods and services in greatest demand and away from the production of those less demanded.

Why Entrepreneurs Fail

The lack of sufficient capital for the success of all business ventures explains why

Mr. Ragan is a student, and Dr. Block a professor of economics, at the College of the Holy Cross in Worcester, Massachusetts.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

so many entrepreneurs fail and why entire industries disappear. The open market rewards only those whose discovery, invention, or idea satisfies urgent demands. Consider Alexander Graham Bell and the invention of the telephone, or Henry Ford and the introduction of the mass-produced automobile or, more recently, Steve Jobs, the founder of Apple Computers, and Bill Gates, creator of Microsoft Corporation. When an invention is of great benefit to society, the entrepreneur will be rewarded handsomely. However, if through the free market a society decides that the benefits gained by an invention do not justify its cost, it will fail to attract consumers.

For all the new economic successes, there are many busts. In 1995 alone, 832,415 businesses filed for bankruptcy protection with the federal government.[2] Even established companies experience failures from time to time. A few well-known and ill-fated new products include the Edsel, New Coke, Crystal Pepsi, the 8-track cassette, and Beta VCRs. These products were either replaced by better substitutes, or never proved beneficial enough to consumers to warrant long-term production. Some products did well for a time and then passed, ignominiously, into the dustbin of the economy: the hulahoop, silent movies, the typewriter, and so on. The bright side of these ill-fated ventures is that their failure resulted in the reallocation of capital and other resources to the production of other, more desired goods.

Some industries, once among the world's largest, have succumbed to market forces. The market and the needs of people evolve continuously. Industries that fail to change are punished.

Not even corporate giants can be complacent about the demands of consumers. In 1909 the Central Leather Company was the seventh largest company in the nation. However, plastics and other synthetic materials eventually became the equivalent of, or better substitutes for, leather at lower prices; consequently, Central Leather went bankrupt. Like Central Leather, the Pullman Company was once huge. With the development of the airline industry and the construction of a national highway system, however, consumers found more attractive alternatives to traveling by railroad. As a result, Pullman fell from its perch as a corporate giant. Other forgotten industrial superstars include American Woolen, American Locomotive, and American Molasses. Economists Dwight Lee and Richard McNown observe that "The firm that appears to control the market today may find itself an obscure has-been in the future, because of new technologies or the whims of a fickle consumer."[3]

Too often, people see only the immediate, visible impact of business failure. Government frequently enacts laws that benefit narrow special interests without consideration of the detrimental effects on society as a whole. In other words, public policymakers often disregard secondary consequences. As Henry Hazlitt observed, "The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups."[4]

A Missed Connection

Government bureaucrats regularly miss the connection between failure and progress. They believe that an economic miracle can be produced through an abundance of rules and regulations designed to spare society the growing pains of failure. Ironically, efforts by legislators to limit or reduce the number of losers in an economy usually have the unintended consequence of reducing the number of winners. Government reduces the number of successes achieved by taxing, regulating, or otherwise restraining those who prosper.

All government responses to failure have one thing in common—to the extent that they prevent some, they cause others. Government allocates resources to one activity by reducing the resources available for other activities. The incentives which operate in the political arena seldom, if ever, outperform market incentives in leading

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

people to employ resources in their most valuable uses.

The former Soviet Union and the other socialist nations of the world provide the clearest illustration of the tragic consequences of this phenomenon. Enormous human suffering has occured in these countries. They may have been founded on the sincere and compassionate belief that the government could relieve suffering by providing an equitable and comfortable life for all citizens, but in reality the opposite occurred. By attempting to suppress economic disarray, central planners impeded economic progress. In most instances, the citizens of socialist nations are no better off, or perhaps even worse off, than they were 50 years ago. By Western standards, people in socialist eastern Europe, China, Cuba, and Russia drive obsolete automobiles (or ride bicycles), live in crowded, inefficient homes that lack the modern amenities enjoyed by many "poor" Westerners, and do without the educational and career opportunities of people living in capitalist nations. Socialist countries exchanged their economic progress for a guarantee against personal and business failure.

In a recent study, James Gwartney, Robert Lawson, and Richard Stroup found a direct relationship between the amount of economic freedom a country has and the subsequent amount of economic progress it enjoys.[5] This linkage was drawn from a 20-year comparison of 102 countries. The authors ranked each nation according to an index of economic freedom and compare this to the change in GDP per person. Those with a consistently high amount of economic freedom throughout were also among the highest in terms of GDP per person. Countries with the lowest ratings actually had a declining GDP per capita.

The freest economies include Hong Kong, Switzerland, Singapore, the United States, Canada, and Germany. The least-free include Nicaragua, Iran, Venezuela, Morocco, Panama, Greece, and Brazil. In this study, economic freedom signifies the protection of property rights, voluntary military service, no price or production controls, relatively little public spending, and monetary stability. The empirical evidence gathered suggests that over the long term the freer the economy, the more success it will enjoy.[6]

Even the countries of semi-capitalist Western Europe have tried for several decades to isolate themselves from economic failure. Yet, ironically, the more they attempt to regulate and prevent failure, the more failure they suffer. These countries have generous national welfare systems for their citizens and extensive government regulation to support national industries. Western Europeans believed, and in many cases still believe, they could alleviate the "inequities" of the market. With the fall of communism and an increasingly open global market, European companies, because of their governments' efforts to control capitalism, have found themselves increasingly unable to compete with more efficient American and Asian firms.

Consider the European aerospace industry. A consortium, Airbus, produces jumbo jets and competes with the American firms Boeing and McDonnell-Douglas. But this entity, the pride of the public sector, is leaning toward privatization. Airbus, traditionally a government-subsidized marketing co-op, has been unable to match its rivals in price and efficiency.[7]

Similarly, European banking, another industry traditionally under heavy government control, is moving away from the status quo. Several prominent European banks have announced their intentions to become private firms.[8] Pressured by competition from the economically freer nations, the less efficient European industries realize the critical need to change or be destroyed.

This phenomenon also occurs in the United States, which is among the most economically free nations in the world. And here, too, attempts to prevent economic failure often have detrimental long-term consequences. Many American industries and businesses lobby the government for legislation to protect their narrow interests from the rigors of the market. Examples

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

include subsidies for farmers, tariffs for steelmakers, and bailouts for Chrysler. But these policies simply prevent the free movement of capital from industries where it is less valuable to those where it is more valuable. Government taxation, regulation, and tariffs to reduce the chances of failure for certain groups penalize the entire society.

History has proved that the most successful nations are those that give their citizens the freedom both to fail and to succeed. It is ironic that people have regularly risked their lives to live in a capitalist world, thus risking economic failure. East Germany in 1961 was forced to build the Berlin Wall to prevent East Germans from living under capitalism. More recently, Cubans have fled their communist nation to live in the United States where, paradoxically, the government makes less grandiose promises of security.

People throughout the world "vote with their feet" and overwhelmingly choose to live in capitalist nations where they are free to fail. Perhaps the greatest tragedy of the twentieth century has been that sincerely compassionate efforts to eliminate failure have often resulted in only more failure. The people of the world need to realize that to achieve success, failure must also be risked. □

1. See Dwight R. Lee and Richard B. McKenzie, *Failure and Progress: The Bright Side of the Dismal Science* (Washington, D.C.: Cato Institute, 1993), pp. 11, 17, and 18.
2. "Bankruptcy Statistics," *Bankostats*, Netscape Online, September 1995.
3. Dwight R. Lee and Richard F. McNown, *Economics in Our Time: Concepts and Issues* (Chicago: Science Research Associates, Inc., 1975), p. 70.
4. Henzy Hazlitt, *Economics in One Lesson* (New York: Crown Trade Paperbacks, 1979), p. 16.
5. James Gwartney, Robert Lawson, and Walter Block, *Economic Freedom of the World, 1975–1995* (Vancouver: The Fraser Institute, 1996); see also "Economic Freedom: Of Liberty and Prosperity," *The Economist*, January 13, 1996, pp. 21–23.
6. *Ibid.*, p. 21.
7. Seanna Browder, Paula Dwyer, John Templeman, and Stewart Toy, "A Stronger Tailwind for Airbus?," *Business Week*, March 18, 1996, p. 51.
8. Bill Javetski, "A Black Hole for French Banks," *Business Week*, March 4, 1996, pp. 50–51.

FEE COMES TO YUMA

November 2, 1996 8:15 A.M.—3:00 P.M.

Join us for a FEE seminar at the Yuma Golf and Country Club,
sponsored by The Freedom Library,
a Freeman Society Discussion Club.

Speakers:
Dr. Hans F. Sennholz, President of FEE
Dr. Jane Orient, Physician and Author

A charge of $25 per person includes refreshments and lunch.
Contact Mr. Howard Blitz at (520) 726-8050 for reservations.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Individual Happiness and the Minimal State

by Edward W. Younkins

The Founding Fathers held the view that government, while deriving its power from the consent of the governed, must be limited by the rights of the individual. The purpose of government was to maintain a framework of law and order within which individuals can pursue their own self-interest, subject to the forces of the competitive marketplace.

The framers believed in a higher, natural law over and above man-made law, as the ultimate authority of right and wrong. By deriving the authority of the state from God, the nature of legitimate political authority is thus qualified and non-absolute. Citizens retain inalienable rights, endowed by their Creator, upon which neither the state nor anyone else should trespass. Out of this emerges the idea of a government as a social institution set up voluntarily by men to defend their rights to individual action.

In addition, men were viewed as flawed creatures. Mortal rulers are not only finite in knowledge and ability but also corruptible by temptations to power. An effective means of mitigating the effects of human errancy is to decentralize and disperse power.

Freedom and the Pursuit of Happiness

The purpose of the state is not to help people either materially or spiritually to pursue their vision of happiness—that is the role of individuals, communities, and voluntary associations. The proper function of the state is no more than to provide people with the preconditions for their own happiness-pursuing activities. This simply means preventing interference from others.

Happiness is not something that can be given to people as wealth can be—they must achieve it through their own efforts. Happiness accompanies or stems from the exercise of one's individual human potentialities, including talents, abilities, and virtues. Happiness is that which we want for ourselves and for others. Happiness cannot be given by government nor by anyone else. When people are in control of their own actions and are free to face challenges, they tend to be happier. When the government attempts to supply happiness, it reduces individuals' control over their lives and deprives them of challenges and the chance to develop a sense of competence. People will be happiest if they are given freedom instead of money or goods. The good life, therefore, is the life spent in pursuit of the good life. Happiness requires the opportunity to build self-respect based on efficacious individual choice and action.[1]

The state cannot govern a large number of people regarding the attainment of individual happiness since it is impossible to be personally knowledgeable of the moral character and other attributes of a large number of people. The state should therefore con-

Dr. Younkins is professor of accountancy and business administration at Wheeling Jesuit University, Wheeling, West Virginia.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

fine itself to matters that do not require personal knowledge about or by its citizens. Its role should be limited to protecting man's natural rights.

The individual needs to be free in order to follow his own particular inclinations and tastes. Each person must also be free to judge, evaluate, and reflect upon, without constraint, his past and present choices and commitments to decide if they really do represent his best interests. It is imperative that the state stay out of this process. Neutral concern on the part of the state encourages us to adopt policies that enable all equally to determine and pursue their own conception of the good life.

The Common Good of the Political Community

The good of the individual person is inextricably related to the common good of the resulting political community. The common good of that larger community involves the protection of each person's natural right to liberty through which he can freely pursue further duties and actions.

The common good of the political community is not a single determinate goal that all men must attempt to achieve. Rather, it is the implementation and protection of man's natural right to liberty. The natural right to liberty is a necessary precondition for the possibility of morality. There can be no morality without responsibility and no responsibility without self-determination. In order to provide the maximum self-determination for each individual the state should be limited to maintaining justice, police, and defense and to protecting life, liberty, and property.[2]

The Growth of Government

Until the early 1900s, the United States had a limited government. But, since the Great Depression, both attitudes toward government and the interpretation of the Constitution have changed, resulting in an increasingly large government. When government goes beyond its legitimate limited role by gathering additional powers to itself, it invades other spheres and becomes interventionist and coercive. Any coerced, unfree exchange is alien to, and outside of, the system of capitalism. Government initiatives such as minimum-wage laws, rent control, international trade barriers, price supports, health and housing subsidies, and bailouts of corporations negate the requisite pricing and allocation functions of the market, causing increased economic disorder. Every unwarranted intervention of government into the free market causes more problems to which interventionists respond with even more intervention.

There has been a slow but steady erosion in the protection the Constitution provides its citizens against arbitrary government power. This breakdown is due largely to changes in the prevailing attitude towards government—the fear of government power has been largely supplanted with the idea that discretionary government power should be used to attain "social" (i.e., distributive) justice. Consequences of the reduction of the constitutional limits on the use of governmental power include the growth of government; the rise of a transfer society with its many opportunities for personal achievement through political activity; an undermining of self-reliance, market discipline, property rights, and the work ethic; the replacement of an ethic of freedom and responsibility with an ethic of dependence; and a decline in individual virtue, civil society, and economic welfare.

We need to reaffirm the spiritual, political, and economic wisdom of our Founding Fathers. This means a return to a government that is limited to establishing and to enforcing standards of just conduct under which free individuals will pursue their own goals, values, and happiness. □

1. Charles Murray, *In Pursuit of Happiness and Good Government* (New York: Simon and Schuster, 1988).

2. See Chapter 4 in Douglas B. Rasmussen and Douglas J. Den Uyl, *Liberty and Nature* (LaSalle, Ill.: Open Court, 1991) for a thorough discussion of the common good of the political community.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Managing Dissonance in the Iron Triangle

by J. R. Clark

Economists have recently found the psychological theory of cognitive dissonance useful as a means of explaining certain economic behaviors and rationalizing a variety of public policies. Developed by Leon Festinger in 1957, the theory provides a framework for analyzing the psychological discomfort that may occur after a choice has been made and alternatives are forgone.

A 1983 article by George Akerlof and William Dickens in the *American Economic Review* applied the theory to a model of individual choice among workers in hazardous industries. They argued that workers would first accept hazardous jobs lured by relatively higher wages, and later, because of dissonance, force themselves to believe that their jobs were not hazardous, and therefore, they would not buy available safety equipment. Akerlof and Dickens concluded that, "Safety legislation is needed to restore Pareto optimality since the workers have an incorrect assessment of the marginal rate of substitution between safety equipment and money income." They also used the same argument to justify social security legislation and to argue against Gordon Tullock's position that higher penalties serve to deter crime. All three of their arguments identified cognitive dissonance as a source of potential market failure and suggested public-sector action to alter the behavioral outcomes. However, they failed to notice that public-sector choices are also subject to cognitive dissonance whether they relate to safety, social, criminal, or any other type of legislation. Most importantly, they failed to notice that cognitive dissonance can be manipulated in the legislative process to the self-interest of public-sector agents, and the public sector becomes a market surrogate where dissonance is exchanged like any other commodity.

Dr. Clark holds the Probasco Chair of Free Enterprise, at the University of Tennessee at Chattanooga.

Dissonance and Individual Choice

Dissonance is the discomfort created when the outcome of individuals' choices is not consistent with their pre-choice beliefs. The dissonance, however, occurs only after decisions are made; the act of choosing, therefore, creates dissonance. For example, an individual may consider the costs and benefits of smoking cigarettes and decide to smoke. After experiencing respiratory discomfort, bearing the social stigma placed on smokers, and frequently viewing the surgeon general's warnings, an individual may reformulate his preferences and decide not to smoke. This earlier choice, which was made in the context of the choice-influencing costs, was changed when the smoker incurred the choice-influenced costs similar to those postulated by James Buchanan in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

1969. Dissonance that results from decision-making can be reduced by: (1) revoking the decision, (2) increasing the attractiveness of the chosen alternative, (3) decreasing the attractiveness of the unchosen alternative, and/or (4) establishing more similarity between the alternatives.

Involuntary information in society may also create dissonance. New information to which an individual is involuntarily exposed may conflict with his current opinions or attitudes, and thus cause psychological discomfort. Individuals may be involuntarily exposed to information, accidentally or forcibly, through broadcast or print media, as when a smoker first reads the surgeon general's warnings. Dissonance caused by involuntary exposure to information can be reduced by intentionally misperceiving or avoiding it or changing one's opinion after being exposed.

Festinger asserts that dissonance is also created in most social settings. Specifically, he argues that disagreement with other individuals, or groups of individuals (i.e., lack of social support), tends to create dissonance. Dissonance caused by lack of social support can be reduced by changing one's opinion to agree with the disagreeing persons, persuading the disagreeing parties to change their opinions, or disparaging the disagreeing persons.

Dissonance in the Iron Triangle

Dissonance theory can be applied to choice-influenced costs that result from decision-making under uncertainty. The psychological costs of choice are not easily quantifiable and change with human interpretations *after* the choice is made. They are also heavily influenced by exposure to information, peer pressure, and social support. With such psychological attributes, dissonance becomes a valuable tool for rent seeking in the "iron triangle" of legislators, bureaucrats, and special interest groups.

Legislators, bureaucrats, and special interest groups frequently attempt to influence the voting public's preferences through dissonance management by orchestrating information that is supportive of their goals and programs. Their success in getting programs through the congressional authorization and appropriation process depends, in part, on how efficiently dissonance can be managed. Therefore, managing dissonance becomes the stock and trade of public officials whose job is to choose in the public interest, special interest groups whose mission is to influence the votes of these officials, and bureaucrats who stand to increase their power, influence, and resource base in the process.

Environmental issues provide an example of dissonance which arises from choice, uncertainty, and involuntary exposure to information, as well as showing how dissonance is managed by public sector agents to their own advantage. All three basic sources of dissonance come into play here. Choices are made, and costs are borne. The voting public is exposed to both voluntary and involuntary information, and interest groups support or oppose each other.

When legislators, bureaucrats, and special interests address an environmental issue, they actively engage in both quelling dissonance in regard to the choices they support and fomenting dissonance regarding the choices of their opponents. The groups who support a specific environmental bill coalesce to point out damages to the environment caused by the lack of such regulation in the past and the potential for future harm in the absence of their proposed legislation. They trade in the fear of the unknown by fomenting voter dissonance or anxiety over prior environmental choices. In effect, they attempt to "scare up some votes" by popularizing terms like the *China Syndrome* or *Nuclear Winter*. At the same time, they offer public-sector action as the solution to the problem and reassure voters regarding the costs and benefits of their proposed legislation. They may also attempt to quell a voter's dissonance regarding the failures of past government efforts by criticizing deviant government agencies. In this way, the public sector manages dissonance as a commodity, and therefore, each of the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

components of the iron triangle should be examined individually.

Legislators: Public-choice theorists have argued that voters are rationally ignorant when confronted with choices among "bundles of political goods" which may include the choice among public officials. (Tullock, 1967; Downs, 1957) In addition, voters have fewer options among which to choose in public- as opposed to private-sector decisions, and dissonance management by coalitions builds upon these factors. For example, less than half of the American electorate can correctly identify their Congressman, much less know where he or she stands on various government-spending issues. Typically, the voter relies on information that is freely supplied by others (candidates, political parties, news media, friends, and interest groups). Information provided by candidates is designed to manage voter dissonance in the candidate's favor. A political campaign is designed to quell dissonance among the candidates' supporters and foment dissonance among the opposition. Political "muckraking" is nothing more than an attempt to provide information to voters which will discredit and reduce the attractiveness of political opponents.

Discrediting an opponent can also be viewed as an attempt to expose information that would not have been searched for by potential supporters. Such involuntary information within a society may create dissonance. New involuntary information may be dissonant with an individual's preconceived opinions. Festinger makes two points that are relevant to the involuntary information argument. "If a person voicing disagreement is seen as expert or very knowledgeable on such matters, the dissonance between knowledge of his contrary opinion and one's own opinion will be greater." Candidates who seek the endorsement of such authorities in a particular field are, in effect, attempting to quell dissonance among their own supporters and foment dissonance among their opposition on the issues which the endorser possesses expertise. Festinger's contention that dissonance is directly related to the credibility of one's opponent is also consistent with economists' perception that votes and political power are not distributed symmetrically across the field of candidates and the voting public. Thus, it is not surprising to see anti-nuclear interests featuring media star and physicist Carl Sagan in congressional testimony against the Reagan administration's star wars defense initiative.

The second point that Festinger makes is that:

> Another variable which clearly will affect the importance of the cognitive elements, and hence the magnitude of the dissonance, is the *attractiveness* of the person voicing the disagreement or of the group within which it is voiced. It is plausible to assume that the dissonance between one's own opinion and knowledge of a contrary opinion voiced by some other person is greater if the other person is . . . attractive.

This is similar to Galbraith's concept of "conventional wisdom" and may explain why movie and television personalities have become spokespersons for political candidates and causes. Examples include appearances by Arnold Schwarzenegger in support of the Bush election campaign and actress Olivia Dukakis in support of the Michael Dukakis campaign. While they may have very little technical credibility in terms of knowledge or understanding of the issues, they are in some sense "attractive" to the voting public and can quell and foment dissonance.

Collective decision-making involves creating simple majority consensus or, in effect, reducing disagreement. Festinger asserts that the magnitude of dissonance which results from disagreement is a function of, among other things, the number of agreeing and disagreeing individuals. One way to increase the number in agreement on a given issue is by logrolling. The "you vote for my bill and I will vote for yours" approach alters legislative conflict in favor of both bills and reduces the number of disagreeing parties. It also assures that those

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

receiving benefits will not oppose others receiving benefits. (Will, 1982)

Dissonance can also be reduced by increasing the reward or punishment employed to induce the behavior. As the gains from trade among agreeing and non-agreeing parties increase, dissonance will decrease. For example, a constitutional amendment requiring a balanced federal budget is politically unacceptable to legislators primarily because it would reduce the systems of political bribes the Congress, special interests, and bureaucrats may exchange to achieve their own agendas. If more dollars for defense required that fewer dollars be spent for social programs, the benefits of a coalition of legislators, bureaucrats, and special interests would be significantly reduced, and dissonance within the coalitions would increase. In brief, coalitions manage public- and private-sector dissonance to their advantage, and in doing so, minimize their own dissonance.

Special Interest Groups: Special interests have the ability to foment dissonance "for the cause" and quell dissonance "for a price," justifying their own existence and seeking rents in the process. A special interest group is composed of individuals who hold similar positions on a given issue. The group can identify an issue, and through its media and political resources, foment dissonance to make it a major public issue. The group can then represent itself as the solution to the problem and thereby provide a means of quelling the voter dissonance which it fomented in the first place. For example, a special interest group, such as the save-the-elephants movement, first popularizes the issue with vivid media images of the slaughter of elephants coupled with proclamations that their extinction is imminent. Then they promote themselves as the solution to the problem by fighting for the "right laws," as defined by themselves, to preserve the elephant. In the process, the movement solicits public support and funds which may serve to quell a portion of the dissonance held by those who are concerned with the problem. (Brady, 1991)

Supporters of special interest groups may also be trying to co-opt the sources of potential dissonance. For example, the Atlantic Richfield Foundation gives funds to the Sierra Club and The Wilderness Society, both of which lobby *against* oil exploration on federal lands. (Anderson, 1990) In addition, individuals may attempt to quell some of their personal dissonance by contributing to special interests. For example, some contributors to the American Lung Association are smokers. Their dissonance over the decision to smoke may, in part, be quelled by their contributions. The personal dissonance factor may well have been fomented by public information campaigns financed by the American Lung Association. As indicated in the now well-publicized report by James Bennett, only a small fraction of the American Lung Association's budget is spent for research; the majority of it goes to media campaigns and political lobbying. Similar circumstances can be found with regard to the American Heart Association and the American Cancer Society. Such evidence lends credence to the contention that the public sector is a marketplace where dissonance is exchanged like any other commodity.

Bureaucrats: The third leg of the iron triangle actively manages dissonance in pursuit of self-interest. Bureaucrats can foment and quell dissonance to expand their own bureaus, or get rid of their opposition. When special interest groups and legislators focus public attention on an issue, there will invariably be a call for public-sector action of some type. Consequently, each new environmental issue that is identified and brought to public attention by a special interest group offers the potential for staff and budget expansion of the Environmental Protection Agency. For example, fears of a gradually warming planet have recently captured public attention and have become the subject of wolf-crying. A British documentary film, "The Greenhouse Conspiracy," examined the four pillars that support global warming claims and suggested that such fears were unfounded. The film argued that

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the call for political action costing billions of dollars was a fraudulent case. However, the U.S. Public Broadcasting System (a government agency) refused to air the program despite the ease with which it aired "After the Warming," a pseudo-documentary purporting to describe the world in 2050 after rising temperatures in oceans had resulted from global warming.

Conclusion

After individuals choose, their behavior is affected by the dissonance of their actions. This may cause them to alter future choices, reformulate their preferences and/or beliefs, or even call for public-sector actions. Dissonance can be managed by bureaucrats, legislators, and special interests to their own self-interest. Legislators can affect both elections and legislation by fomenting dissonance among supporters of their opponents and quelling dissonance among their own supporters. They do so by appeal to expertise, popular association, and exposure to involuntary information. Special interest groups can foment dissonance for the cause and quell dissonance for a price justifying their own existence and seeking rents in the process. They can popularize issues with their media resources and then promote themselves as the solution to the problem by fighting for the "right laws," as they define them. Bureaucrats can manage dissonance to expand their bureaus and budgets, and overcome their opposition. All three entities of the public sector can coalesce to manage dissonance to their own self-interest. In effect, the public sector develops a market surrogate where dissonance is exchanged like any other commodity. □

References

Akerlof, George and Dickens, William. "The Economic Consequences of Cognitive Dissonance." *The American Economic Review*, 1983. Vol. 72. pp. 307–317.

Anderson, Terry. "Free Market Environmentalism: The Only Option." *PERC Reports*, December, 1990. Vol. 8 #3.

Bennett, James T. "Health Research Charities: Image and Reality." George Mason University/Capital Research Center, 1990.

Brady, Gordon L. "The Political Economy of Endangered Species Management: The Case of Elephants." *Journal of Public Finance and Public Choice*, 1991. Vol. 1. pp. 29–39.

Brady, Gordon L., Clark, J.R., and Davis, William L. "The Political Economy of Dissonance." *Public Choice*, 1995. Vol. 82. pp. 37–51.

Buchanan, James M. *Cost and Choice, An Inquiry in Economic Theory*. Markham Publishing Co.: Chicago, 1969.

Clark, J. R. and Lee, Dwight R. "A Note on Public Choice and Cognitive Dissonance." *Economia delle scelte pubbliche*, 1993. Vol. 2. p. 3.

Downs, Anthony. *An Economic Theory of Democracy*. Harper & Row: New York, 1957. p. 210.

Festinger, Leon. *A Theory of Cognitive Dissonance*. Stanford University Press: Stanford, Calif., 1957.

Tullock, Gordon. "An Economic Approach to Crime." *Social Science Quarterly*, 1969. Vol. 50. pp. 551–579.

Tullock, Gordon. "Problems of Majority Voting." *Journal of Political Economy*, December, 1959. Vol. 67. pp. 551–579.

Tullock, Gordon. *Toward a Mathematics of Politics*. The University of Michigan Press: Ann Arbor, 1967. p. 102.

Will, George. "How Congress Slices the Pork." *Newsweek*, August 2, 1982. p. 18.

Attention, Teachers: Back-to-School Special

Recent issues of

THE FREEMAN

for classroom use

Here's a wonderful opportunity to introduce your students to ideas on liberty—at no cost to you or your school. We are offering cartons of past *Freeman* issues free of charge, postpaid. Each carton contains over 100 copies of a single issue. Simply send your request, with shipping instructions, to: FEE, 30 South Broadway, Irvington-on-Hudson, New York 10533.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Thomas Babington Macaulay—Extraordinary Eloquence for Liberty

by Jim Powell

Thomas Babington Macaulay ranks among the most eloquent of all authors on liberty. In terms of the sheer quantity and range of eloquence, perhaps only Thomas Jefferson soared to such breathtaking heights.

Macaulay's essays and *History of England* had an enormous sale during the nineteenth century. When English emigrants left for far corners of the world, they invariably brought with them three essentials of civilization—the Bible, Shakespeare, and Macaulay. His work was even more popular in America than in England. It was translated into nine languages. Nobel Laureate F.A. Hayek observed that "it is doubtful whether any historical work of our time has had a circulation or direct influence comparable with, say, Macaulay's *History of England*."

Throughout his life, Macaulay expressed a sincere, exuberant, unwavering love for liberty. He called for the abolition of slavery. He advocated repeal of laws against Jews. He defended freedom of the press. He spoke out for free trade and the free movement of people. He celebrated the achievements of free markets. He believed women should be able to have property in their own name. He rejected government excuses for suspending civil liberties—"There is only one cure for the evils which newly acquired freedom produces; and that cure is freedom." He insisted that liberty is impossible without secure private property, "that great institution to which we owe all knowledge, all commerce, all industry, all civilization. . . ."

Macaulay recognized evil much more clearly than sophisticated philosophers of his century and ours. He denounced "Socialism, or any of those other 'isms' for which the plain English word is robbery." He thundered against "profuse expenditures, heavy taxation, absurd commercial restrictions, corrupt tribunals, disastrous wars, seditions, persecutions."

Back when historians focused on political history (mainly the story of rulers), Macaulay pioneered economic history and social history (the story of ordinary people). He inspired generations of historians to chronicle struggles for liberty.

Macaulay has been derided as a shill for Whig aristocrats, yet he had commoner origins and earned a livelihood from his pen. After his father's business went broke, he helped pay off the creditors and provided

Mr. Powell is editor of Laissez Faire Books and a senior fellow at the Cato Institute. He has written for the New York Times, *the* Wall Street Journal, Barron's, American Heritage, *and more than three dozen other publications.* *Copyright © 1996 by Jim Powell.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

support for his younger siblings and aging parents. He paid all bills within 24 hours. "I think that prompt payment is a moral duty," he remarked, "knowing, as I do, how painful it is to have such things deferred." When Macaulay had little money, he resigned political office rather than compromise his principles.

Historian A.J.P. Taylor observed that "Those who criticize Macaulay either do not care about liberty, or they think it can take care of itself. Macaulay was a good deal more sensible. Not only did he regard liberty as supremely important; he knew that it needs ceaseless defending." Macaulay's severest critics were the enemies of civilization. Karl Marx dismissed him as a "Scottish sycophant." Thomas Carlyle called Macaulay "vulgar," "intrinsically common," "the sublime of commonplace," an author without "the slightest tincture of greatness or originality of any kind of superior merit."

Macaulay was an inviting target because of his popularity as one of the supreme masters of the English language. He was lucid—no one ever strained to understand him. He told a compelling story. He portrayed unforgettable characters. He provided details appealing to the senses. He offered striking illustrations drawn from his encyclopedic knowledge of history and literature of ancient Greece and Rome, Italy, France, and England. Said A.J.P. Taylor: "Start off on any page, in the middle of a paragraph, and it is impossible not to read on . . . he remains the most readable of all historians." After faulting Macaulay on a number of points, Lord Acton urged a friend: "Read him therefore to find out how it comes that the most unsympathetic of critics can think him very nearly the greatest of English writers."

Winston Churchill was among those inspired by Macaulay. At age 13, Churchill memorized the 1,200 lines of Macaulay's heroic poem *Lays of Ancient Rome*. A little later, he was thrilled when a friend read to him aloud from Macaulay's *History of England*. At 23, Churchill read Macaulay's *History* and essays for himself—12 volumes—and declared triumphantly: "Macaulay crisp and forcible." Churchill acknowledged that in his own writing, "I affected a combination of the style of Macaulay and Gibbon. . . ."

Macaulay never married. He was utterly devoted to books and to his family, especially his youngest sisters, Hannah and Margaret. After Margaret's death at 22 from scarlet fever, Macaulay spent considerable time with Hannah, her husband Charles Trevelyan, and their son George Otto Trevelyan. In 1876, George repaid his uncle's affection by writing an impassioned biography of him.

Precocious Beginning

Thomas Babington Macaulay was born at his uncle's mansion, Rothley Temple, Leicestershire, England, October 25, 1800. He was the eldest of nine children. His mother, Selina Mills, was the daughter of a Quaker bookseller. His father, Zachary Macaulay, was a stern Evangelical crusader against slavery. He had witnessed slaves being whipped and murdered, and he had served as governor of Sierra Leone, a settlement of freed slaves. He became a principal leader in the successful campaign to abolish slavery throughout the British Empire.

Tom was a precocious child. With little encouragement, he began reading widely around age three. He memorized John Milton's epic poem *Paradise Lost* and poems by the romantic Walter Scott. At seven, Macaulay wrote a "Compendium of World History" in which, among other things, he declared that English Puritan dictator Oliver Cromwell was "an unjust and wicked man."

He was tutored at home, attended a day school and then a boarding school. There he learned Greek and Latin, developing a lifelong enthusiasm for classical literature. Early on, he became a prolific writer, and his mother cautioned: "I know you write with great ease to yourself and would rather write ten poems than prune one; but remember that excellence is not attained at first. All your pieces are much mended after a little reflection. . . ."

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Margaret Macaulay believed that a major reason why her brother developed an extraordinarily lucid and dramatic style was his experience as the oldest child, always explaining things to younger siblings.

In October 1818, Macaulay enrolled at Trinity College, Cambridge University, where he deepened his knowledge of the classics and, apparently, studied law. He became an eager debater in the Cambridge Union, covering such issues as free trade, Catholic emancipation, and Greek independence. Along the way, Macaulay abandoned his father's mild Tory views and emerged an ardent Whig. After his father inquired about his reaction to a Manchester meeting on universal suffrage—outraged Tories had killed a dozen people—Macaulay wrote back: "I may be wrong as to the facts of what occurred at Manchester; but if they be what I have seen them stated, I can never repent speaking of them with indignation. When I cease to feel the injuries of others warmly, to detest wanton cruelty, and to feel my soul rise against oppression, I shall think myself unworthy to be your son."

In June 1824, Macaulay first caused a stir as a public speaker by appearing before the annual meeting of the London Anti-Slavery Society. Among those attending were William Wilberforce, who had led the English anti-slavery movement for nearly three decades; Henry Brougham, a leading Whig reformer; and Daniel O'Connell, the Irish patriot. Although the speech text was lost, published excerpts suggest Macaulay's trademark eloquence: "the peasant of the Antilles will no longer crawl in listless and trembling dejection round a plantation from whose fruits he must derive no advantage, and a hut whose door yields him no protection; but when his cheerful and voluntary labour is performed, he will return with the firm step and erect brow of a British citizen from the field which is his freehold to the cottage which is his castle."

The *Edinburgh Review*

Meanwhile, Francis Jeffrey, editor of the pro-liberty *Edinburgh Review*, England's leading journal of political opinion, invited Macaulay to write for him. The first article was "The West Indies," published in January 1825. It was an attack on slavery and colonialism.

Altogether, Macaulay wrote 39 essays for the *Edinburgh Review*. His last appeared in 1844. They cover major figures primarily in European and English literature and history. "Macaulay," noted the nineteenth-century classical liberal biographer John Morley, "had an intimate acquaintance both with imaginative literature and the history of Greece and Rome, with the literature and the history of modern Italy, of France, and of England. Whatever his special subject, he contrives to pour into it with singular dexterity a stream of rich, diversified sources. Figures from history, ancient and modern, sacred and secular; characters from plays and novels from Plautus down to Walter Scott and Jane Austen; images and similes from poets of every age and every nation . . . all throng Macaulay's pages with the bustle and variety and animation of some glittering masque and cosmoramic revel of great books and heroical men. . . . His essays are as good as a library."

Writing about Macaulay's essays in 1856, Walter Bagehot, editor of the free trade journal *Economist*, noted that their "first and most striking quality is the intellectual entertainment which they afford. This, as practical readers know, is a kind of sensation which is not very common, and which is very productive of great and healthy enjoyment."

Said historian G.P. Gooch: "If Macaulay did not invent the historical essay, he found it of brick and left it of marble."

In 1824, Utilitarians had started the *Westminster Review* to promote their views and challenge the influence of the *Edinburgh Review*. Francis Jeffrey asked Macaulay to mount a counterattack, and his opening salvo appeared in the March 1929 issue. He attacked James Mill's "Essay on Government," which was written for the *Encyclopedia Britannica* and claimed that a philosophy of government could be deduced from axioms about human nature. Macaulay ex-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

pressed an empirical view that one must see what actually works. An unnamed *Westminster Review* author defended James Mill, and Macaulay attacked again, in the June 1829 *Edinburgh Review*. He affirmed his critique of Utilitarian apriorism while adding that he didn't necessarily see much difference between Whigs and Utilitarians on public policy—Macaulay agreed that the voting franchise must be expanded. The *Westminster Review* responded again, and Macaulay produced his final essay in the series, October 1829.

Defending the Industrial Revolution

One of Macaulay's most important essays was "Southey's Colloquies" (January 1830), in which he emerged as perhaps the first and still the most eloquent defender of the Industrial Revolution. Industrialization had begun in England, probably because it offered entrepreneurs a bigger free trade area and more secure private property rights than Continental Europe. During the eighteenth century, people developed more efficient ways to grow food, produce cheap clothing, and improve life in myriad ways. Annual progress wasn't dramatic—Adam Smith never mentioned it in *The Wealth of Nations*—and improvement was masked by nearly two decades of war with France. But the Industrial Revolution had a dynamic impact: it saved millions of human beings from starvation, children especially. Millions died in Ireland, India, and other places which experienced a population explosion without an Industrial Revolution.

The Industrial Revolution offered new job opportunities to both men and women who had previously been stuck with agricultural work, and they moved to cities in droves. They did it voluntarily because although factory work was tough and the hours were long, it was more attractive than tedious toil which went from dawn to dusk on the farm—and children did farm work with everyone else. The alternative was starvation.

Landed aristocrats were horrified to see their workers move away. Who was going to keep the estates going? So it wasn't surprising that the earliest critics of the Industrial Revolution were Tories—landed aristocrats and their intellectual minions. They originated the dogma that the Industrial Revolution produced an urban proletariat, huddled masses exploited for slave wages in dangerous factories. Tories harped on the alleged evils of child factory labor, as if children hadn't been working even longer hours on the farms. Tories demanded government intervention to slow down the pace of the Industrial Revolution. The Tory case against the Industrial Revolution was later picked up whole cloth by socialists and persists in some quarters now.

Whig Political Connections

Macaulay's literary enterprise became financially important after family fortunes collapsed. When young Tom entered Cambridge, his father had figured he was worth about £100,000, earned from his business, Macaulay & Babington, a wholesaler which shipped European clothing and manufactured goods to liberated blacks in Africa. But as the senior Macaulay singlemindedly devoted himself to abolishing slavery, he turned over the business to his nephew who spent the company's funds into oblivion within four years. Macaulay had a £300 Cambridge fellowship, but it ended in 1831. He earned about £200 a year writing for the *Edinburgh Review*. Macaulay had impressed Whig power broker Henry Brougham, who recommended him for an opening as Commissioner of Bankruptcy, and in 1828 he accepted the post which included a £250 annual salary, but this expired when a new government came to power two years later. Macaulay was so strapped for cash that he sold a gold medal he had won at Cambridge.

The *Edinburgh Review* essays—especially his attacks on Utilitarianism—enabled Macaulay to fulfill one of his ambitions, a seat in Parliament. The essays impressed the moderate Whig Lord Lansdowne, who offered him a "pocket borough"

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

he controlled in Calne. Macaulay accepted the seat in February 1830. Ironically, Lansdowne was the son of the Earl of Shelburne, who had introduced Utilitarian philosopher Jeremy Bentham to politically connected people. Once in Parliament, Macaulay would play a key part promoting the Reform Act of 1832, which abolished "pocket boroughs" and extended the franchise to the middle class. It was perhaps the bitterest political struggle in England during the nineteenth century.

Macaulay's considerable knowledge and elegant phrases caused a stir. His performance enabled him, an impecunious commoner, to gain acceptance among many leading Whig aristocrats. William Ewart Gladstone, convert to Liberalism who served as Prime Minister four times, noted that Macaulay got "an amount and quality of social attentions such as invariably partake of adulation and idolatry, and as perhaps the high circles of London never before or since have lavished on a man whose claims lay only in himself, and not in his descent, his rank, or his possessions."

Since Macaulay wasn't a rigorous thinker, he occasionally supported proposals that undermined liberty. For instance, he did not oppose a bill to get tough with Ireland (1833). He was for the 10-Hours Bill (1846), which limited working hours for "young persons," conceding a loophole for massive government interference in the workplace. He hoped that by spending taxpayer money on government schools (1847), liberty and property would be better protected, but as later generations discovered, this promise didn't pan out.

An Eloquent Defender of Liberty

On one key issue after another, though, Macaulay contributed many of the most eloquent words ever spoken. He took advantage of many opportunities to pursue his cherished theme of defending the Industrial Revolution. Macaulay applied his eloquence to an 1833 bill for abolishing laws against Jews. "We treat them as slaves," he declared, "and wonder that they do not regard us as brethren. . . . Let us do justice to them. Let us open to them the door of the House of Commons. Let us open to them every career in which ability and energy can be displayed. Till we have done this, let us not presume to say that there is no genius among the countrymen of Isaiah . . . [the] religion which first taught the human race the great lesson of universal charity."

Macaulay backed Richard Cobden and John Bright's campaign to abolish the corn laws—grain tariffs which made bread prices several times higher than they would have been if people could have imported grain freely from the United States and other efficient producers. On December 2, 1845, Macaulay declared: "I have always considered the principle of protection to agriculture as a vicious principle. . . . Nobody now ventures to say in public that ten thousand families ought to be put on short allowance of food in order that one man may have a fine stud and a fine picture gallery. . . . I must vote for the total repeal of the corn laws."

Despite Macaulay's triumphs in Parliament, there were occasions when his views differed from those of his party, which presented him with the choice of compromising principles or quitting a ministry position—and losing an important source of income. "If I remain in office," he had written his sister Hannah in August 1833, "I shall, I fear, lose my political character. If I go out, and engage in opposition, I shall break most of the private ties which I have formed during the last three years. In England, I see nothing before me, for some time to come, but poverty, unpopularity, and the breaking up of old connections."

Indeed, the Whigs soon proposed a bill to abolish slavery in the British West Indies, but it included a clause providing a 12-year transition period during which slaves must continue to work for their masters as apprenticed laborers. Abolitionists objected, and Macaulay submitted his resignation from the ministry, but the offensive clause was dropped, and his resignation was refused.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Macaulay in India

Meanwhile, Parliament passed a law to reform the administration of India. It provided that there would be a supreme council. Macaulay loomed as a likely candidate for the job. It paid £10,000 per year, and Macaulay was told he could live very well for half that—enormous sums for somebody whose assets were just £709, if everyone who owed him money repaid. He figured that if he stayed in India six years, he could save £30,000 and banish money worries for the rest of his life. He got the job and sailed with Hannah in February 1834. She brought some 300 oranges for sustenance. He packed a half-dozen trunks of books. "Except at meals," he recalled of the voyage, "I hardly exchanged a word with any human being. I read insatiably; the *Iliad* and *Odyssey*, Virgil, Horace, Caesar's Commentaries, Bacon de Augmentis, Dante, Petrarch, Ariosto, Tasso, Don Quixote, Gibbon's Rome, Mill's India, all the seventy volumes of Voltaire, Sismondi's *History of France*, and the seven thick folios of the *Biographia Britannica*."

Macaulay developed reforms for Indian education and law. He convinced his fellow commissioners that Indians should be taught English, so they could tap the intellectual wealth of the Western world. He did most of the work writing the Indian Penal Code. At the time, it was a mishmash of Hindu and Moslem law, variously interpreted in different regions of the country, overlaid with British East India Company regulations. Macaulay applied the legal philosophy of Jeremy Bentham as he drafted a remarkably concise, systematic, plain English code. He observed "the principle of suppressing crime with the smallest amount of suffering, and the principle of ascertaining the truth at the smallest possible cost of time and money." He established a rule of law for all races—foreigners and natives alike were subject to the same rules. He moved to eliminate what remained of slavery in India. He abolished laws censoring the press. He limited the death penalty to treason and murder. He provided that women could own property. His Indian Penal Code was adopted in 1837, and its fundamentals endure in Indian law today. Macaulay returned to England in January 1838.

"A True Picture of the Life of Their Ancestors"

He arrived with a plan for writing a history of England. He proposed to challenge the prevailing interpretation of history which had been written by Tories like David Hume, intent on vindicating government power. Macaulay believed the most glorious story was the struggle for human freedom.

He decided to survey the history of England from ancient times to 1660, the accession of Charles II who aimed to re-establish royal absolutism. Then Macaulay would chronicle the "Glorious Revolution," which peacefully toppled Charles's Catholic successor James II, brought in the Protestant William III, and assured the supremacy of Parliament. Macaulay hoped to conclude with the death of King William IV in 1837. He sought as many converts as possible for liberty. "I shall not be satisfied," he remarked, "unless I produce something which shall for a few days supersede the last fashionable novel on the tables of young ladies."

He aimed to go far beyond the traditional confines of political history and talk about the lives of ordinary people. "It will be my endeavor," he wrote, "to relate the history of the people as well as the history of the government, to trace the progress of the useful and ornamental arts, to describe the rise of religious sects and the changes in literary taste, to portray the manners of successive generations, and not to pass by with neglect even the revolutions which have taken place in dress, furniture, repasts, and public amusements. I shall cheerfully bear the reproach of having descended below the dignity of history, if I can succeed in placing before the English of the nineteenth century a true picture of the life of their ancestors."

Macaulay did a prodigious amount of research. He pored through archives in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

England and Holland. He acquired a vast collection of document transcriptions from France, Spain, and the Papacy. He examined transcriptions of French diplomatic dispatches, collected by Charles James Fox who had contemplated a history of late seventeenth-century England. Macaulay read diaries, pamphlets, broadsheets, ballads, and newspapers of the period. Novelist William Makepeace Thackeray marveled that he "reads twenty books to write a sentence; he travels a hundred miles to make a line of description."

He began writing on March 9, 1839. He worked in a suite of rooms on the second floor of the Albany, a building between Vigo Street and Picadilly, London. Every room overflowed with books. Macaulay worked with fewer distractions after he lost a Parliamentary election in July 1841, but he was back in a ministry from June 1846 until July 1847. During the periods when he was working on the *History* full-time, he wrote from seven in the morning until seven at night. He started writing as soon as he had enough information to produce an account, then revised in light of further material. He went through many drafts, struggling to achieve greater clarity and interest. "The great object is that, after all this trouble, they may read as if they had been spoken off, and may seem to flow as easily as table talk," Macaulay noted in his diary.

"How little the art of making meaning pellucid is studied now," he added. "Hardly any popular writer, except myself, thinks of it. Many seem to aim at being obscure. Indeed they may be right enough in one sense; for many readers give credit for profundity to whatever is obscure, and call all that is perspicous shallow."

Macaulay wasn't always fair in his judgments of people—notably William Penn, who was a friend of James II—but he soared to heights rarely seen in historical literature before or since. He told how under the settlement of 1688, "the authority of law and the security of property were found to be compatible with a liberty of discussion and of individual action never before known; how, from the auspicious union of order and freedom, sprang a prosperity of which the annals of human affairs had furnished no example . . . the history of our country during the last hundred and sixty years is eminently the history of physical, of moral, and of intellectual improvement. Those who compare the age on which their lot has fallen with a golden age which exists only in their imagination may talk of degeneracy and decay; but no man who is correctly informed as to the past will be disposed to take a morose or desponding view of the present . . . we rejoice that we live in a merciful age, in an age in which cruelty is abhorred. . . . Every class doubtless has gained largely by this great moral change: but the class which has gained most is the poorest, the most dependent, and the most defenseless."

Macaulay's first two volumes were published on December 1, 1848, and they were an immediate hit. Within four months, some 13,000 copies were sold in Britain, and about 100,000 were sold in the United States. Two more volumes appeared on December 17, 1855. The *History* was translated into Bohemian, Danish, Dutch, French, German, Hungarian, Italian, Polish, and Spanish. After the third and fourth volumes sold 26,500 copies in 10 weeks, Macaulay's publisher wrote him a £20,000 check which became a landmark in literary history.

Faced with Macaulay's eloquence, his adversaries twisted his ideas beyond recognition. A misguided twentieth-century biographer, Richmond Croom Beatty, even committed the obscenity of blaming World War I on free markets. He sneered at Macaulay's philosophy "which taught that, once wealth had been augmented in England, all other blessings that men can tangibly perceive will follow inevitably in its wake. The world-wide madness which this philosophy engendered went on unchecked, as we have seen, until the fatal summer of 1914."

In fact, Macaulay's view was that human beings could achieve unlimited progress—as long as governments stay out of the way. In a May 1857 letter to Henry S. Randall, who wrote a biography of Thomas Jefferson, Macaulay expressed his worry about the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

destructive potential of future government intervention: "On one side is a statesman preaching patience, respect for vested rights, strict observance of public faith. On the other is a demagogue ranting about the tyranny of capitalists and usurers, and asking why any body should be permitted to drink champagne and to ride in a carriage, while thousands of honest folks are in want of necessaries. Which of the two candidates is likely to be preferred by a working-man who hears his children cry for more bread? I seriously apprehend that you will, in some such season of adversity as I have described, do things which will prevent prosperity from returning; that you will act like people who should in a year of scarcity devour all the seed-corn, and thus make the next year not of scarcity, but of absolute famine. There will be, I fear, spoilation. The spoilation will increase the distress. The distress will produce fresh spoilation."

As Macaulay focused more intently on his *History* and tired more easily because of a heart condition, he withdrew from London society. He recognized that he wouldn't live long enough to fulfill his dream. Macaulay lived with a butler at Holly Lodge, a villa between Palace Gardens and the Fox family's Holland House, in Campden Hill, London. In 1857, Prime Minister Lord Palmerston honored his achievements by naming him a peer—Baron Macaulay of Rothley.

On Wednesday morning, December 28th, 1859, Macaulay dictated a letter accompanying a £25 contribution to a poor clergyman. Sometime after seven that evening, he suffered a fatal heart attack while reading a book in his library easy chair. He was buried in "Poet's Corner," Westminster Abbey.

A posthumously published fifth volume brought his *History* only up to the death of William III, in 1702. This work is a towering fragment which offers a tragic glimpse of what might have been had Macaulay lived longer, but what he did do was awesome.

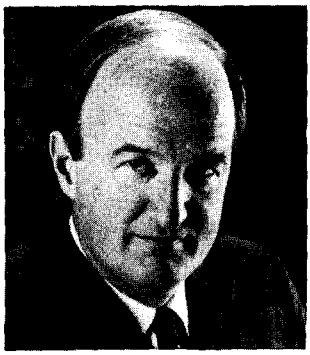
His story of freedom and progress inspired readers for generations. "Up to that time," noted German historian Leopold von Ranke, "the Tory view, as represented by Hume, had not yet been driven from the field. Macaulay decided the victory of the Whig view."

Of course, intellectual trends ran against Macaulay as collectivism engulfed Europe, and his work was relentlessly attacked. Yet his influence persisted, and in 1931 Cambridge University professor Herbert Butterfield found it necessary to issue a famous attack, *The Whig Interpretation of History*. Writing before Hitler and Stalin had emerged as world-class demons, Butterfield denounced the Whig "division of mankind into good and evil."

Debate raged for decades about whether capitalism brings human progress, and today Macaulay stands vindicated. Among the works which affirm his view are John H. Clapham's *An Economic History of Modern Britain* (1926), T.S. Ashton's *The Industrial Revolution* (1948), John U. Nef's *War and Human Progress* (1950), F.A. Hayek's *Capitalism and the Historians* (1954), William H. McNeill's *The Rise of the West* (1963), David S. Landes's *The Unbound Prometheus* (1969), Douglass North and Robert Thomas's *The Rise of the Western World* (1973), Fernand Braudel's *Civilization & Capitalism* (1979), Julian L. Simon's *The Ultimate Resource* (1981), Asa Briggs's *A Social History of England* (1983), J.M. Roberts's *The Triumph of the West* (1985), Nathan Rosenberg and L.E. Birdzell's *How the West Grew Rich* (1986), Rondo Cameron's *A Concise Economic History of the World* (1989), and Joel Mokyr's *The Lever of Riches* (1990).

Macaulay was right to say that people thrive when they are free. He insisted that government intervention would make millions miserable—and it has. He believed that by telling a simple, stirring story in bold colors, he could help win the hearts of people—and he did. Long after the most fashionable pundits are forgotten, readers will be thrilled by Thomas Babington Macaulay's extraordinary eloquence for liberty. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



Classical Economists, Good or Bad?

"The classical and the Austrian schools and their allies have developed virtually all of the great positive truths of economic science."

—*George Reisman*[1]

"Adam Smith . . . shunted economics on to a false path. . . . Under Ricardo, this unfortunate shift in focus was intensified and systematized."

—*Murray N. Rothbard*[2]

Until the Keynesian revolution in the 1930s, most economists taught the sound principles of classical economics: free trade, balanced budgets, the gold standard, and laissez faire. Adam Smith (1723-1790), the founder of classical economics, has been lionized as the foremost exponent of these principles. David Ricardo, Thomas Malthus, and John Stuart Mill, among others, have played supporting roles.

Many free-market economists congratulate Adam Smith for his profundity and wisdom in *The Wealth of Nations*, published in 1776. His work almost singlehandedly destroyed the mercantilist arguments for protectionism and other forms of government intervention. George Stigler concludes, "It's all in Adam Smith."

Dr. Skousen is an economist at Rollins College, Department of Economics, Winter Park, Florida 32789, and editor of Forecasts & Strategies, *one of the largest investment newsletters in the country. His book* Economics of a Pure Gold Standard *has just been reprinted by FEE.*

In his monumental new book *Capitalism*, George Reisman carries on this tradition of extolling the virtues of Adam Smith and David Ricardo (1772-1823). In his judgment, there are four great economists, whom he ranks in the following order: Ludwig von Mises, Adam Smith, David Ricardo, and Eugen Böhm-Bawerk. Although he does not ignore their weaknesses, Reisman considers Smith and Ricardo great economists who have been much maligned.

Rothbard's Challenge

But consider Murray Rothbard's critique of classical economists in his two-volume work *Economic Thought Before Adam Smith* and *Classical Economics*, published at the time of his death in January 1995. He lambastes Smith, Ricardo, and Mill, among others, arguing that the classical economists moved away from the sound doctrines and theories previously developed by pre-Adamites such as Richard Cantillon, Anne Robert Turgot, and the Scholastics. According to Rothbard, Adam Smith's contributions were "dubious," that "he originated nothing that was true, and that whatever he originated was wrong," and *The Wealth of Nations* is "rife with vagueness, ambiguity and deep inner contradictions."[3] He has little better to say of Ricardo and Mill.

How can free-market economists see things so differently? Having read both Reisman and Rothbard, as well as the major works of Smith and Ricardo, I have an

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

answer: Smith and Ricardo were largely right on policy, but often wrong on theory.

A Critique of Classical Economics

If you look at the theories developed by the classical economists, you can easily find fault. Smith advanced an exploitation theory of labor, referred to the work of ministers, physicians, musicians, orators, actors, and other producers of services as "unproductive, frivolous" occupations, and made a distinction between "production for profit" and "production for use." All of these Smithian concepts gave ammunition to Karl Marx and other socialists.

Ricardo furthered the Marxist cause by implying that profits could only increase at the expense of workers' wages, which tended toward the subsistence level. As rents earned by idle landlords increased, profits would decline, he predicted. He also invented what economists call the "Ricardian Vice," whereby theorists build models based on false and misleading assumptions that lead inexorably to the desired results. Ricardo used this device to "prove" his labor theory of value. As a result, some commentators have identified Ricardo as the source of today's highly abstract, mathematical, and ahistorical theoretical model-building.[4]

Positive Contributions

Despite these theoretical blunders, Smith and Ricardo were consistent defenders of laissez-faire capitalism. Smith ably defended the right to immigrate. He opposed minimum-wage laws, and argued for lower taxes and a simpler tax code. War was bad for the economy, according to Smith. He pleaded for balanced budgets. He spoke favorably about saving and capital investment. His "invisible hand" doctrine declared that the voluntary self-interest of millions of individuals creates a stable, prosperous society (what Smith called "natural harmony") without the need for central direction by the state. Smith viewed free-market capitalism overall as socially humanizing and prosperous, while Marx saw capitalism as dehumanizing and alienating. Smith eloquently promoted the principle of "natural liberty," the freedom to do what you wish without interference from the state. His words literally changed the course of politics, dismantling the old mercantilist doctrines of protectionism and human bondage. *The Wealth of Nations* was the ideal document to accompany the Industrial Revolution.

Despite his pessimism about the future, David Ricardo favored a strict 100 percent gold standard, was opposed to public welfare and the corn laws, and was a firm believer in free trade.

In short, the classical economists had much to offer the world. Their theories weren't always on target, but they usually proposed the right solution. □

1. George Reisman, *Capitalism* (Ottawa, Ill.: Jameson Books, 1996), p. 2.
2. Murray N. Rothbard, *Classical Economics: An Austrian Perspective on the History of Economic Thought* (London: Edward Elgar, 1995), p. xi.
3. Rothbard, "The Celebrated Adam Smith," *Economic Thought Before Adam Smith* (London: Edward Elgar, 1995), pp. 435–6.
4. For critiques of Ricardo, see Graeme Donald Snooks, *Economics Without Time* (Ann Arbor, Mich.: University of Michigan Press, 1993) and Elton Mayo, *The Social Problems of an Industrial Civilization* (Cambridge, Mass.: Harvard University, 1945).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

BOOKS

Liberty for the 21st Century, Contemporary Libertarian Thought

Edited by Tibor Machan and Douglas Rasmussen

Rowman & Littlefield • 1995 • 386 pages • $26.95 paperback

Reviewed by Matthew Carolan

This is a substantive book, written almost entirely by professional academics, and full of abstract language about things like deontology, "meta-normative" principles, and prisoner's dilemmas. Not easy reading at times.

But working through *Liberty for the 21st Century* is worthwhile. It is thought-provoking, challenging, and will last in value as a classic short exposition of multiple libertarian themes.

After a fine introduction on the meaning of "libertarianism" by John Hospers, the early essays address what might be called the "foundations" of liberty, which at first seems a curious issue. Isn't it self-evident that political freedom is necessary? The authors examine the deeper anthropological, metaphysical premises on which political liberty is based. Each author comes at the idea of political freedom from a different political tradition. Is freedom rooted in some prior notion of social contract (Jan Narveson), a deduction from the deontological notion of persons as ends in themselves (Eric Mack), or is it a precondition for the kind of human flourishing that the ancients envisioned (Douglas Den Uyl and Douglas Rasmussen)? Here alone one can learn much.

Then follows an interesting survey, by Aeon Skoble, of the fascinating debate between limited-government and anarchist libertarians. Can there be a natural obligation to turn over certain personal property to fund even a restrained government?

Following a naturally logical progression, the middle part of the book introduces essays which apply libertarian principles to longstanding political issues: warfare (Eric Mack), civil rights and affirmative action (Steven Yates), business ethics (Machan), environmentalism (journalist Mike Gemmell, the only non-academic in the bunch), education (J.E. Chesher), and drug prohibition (Mark Thornton). This is a fine section as well, with the authors not giving so much attention to current names and places as to risk dating the book. The essays offer concise analyses for the long haul. If I had one minor objection to this section, it was that it did not address a traditional public-relations millstone for libertarians: the subject of prostitution.

The final section responds to objections from critics of different stripes, most proposing positive rights to the property of others, or the lack of nuance in the classical liberal/libertarian view and the need for more "community"-minded (statist, bureaucratic) "solutions." The most enjoyable section of the book, as the authors do a clinical job—with absolute, truly admirable honesty and solicitude for ideas—of analyzing and dissecting critics of libertarian thought. Of particular note were the demolitions of rights to welfare by Machan and Den Uyl, and the argument against "moral minimalism" (claiming too much common ground with critics of libertarianism) by Gregory Johnson.

Once again I must stress that despite the challenging abstractions in the book, the sheer respect for ideas and the "ethical" use of argument here is apparent and worth experiencing. It was this very quality which so attracted me to libertarian thought in the first place. □

Mr. Carolan is the executive editor of National Review.

Environmentalism at the Crossroads: Green Activism in America

by Jonathan Adler

The Capital Research Center • 1995 • 299 pages • $30 paperback

Reviewed by Roy Cordato

Jonathan Adler, director of environmental studies for the Competitive Enterprise Institute, is one of the brightest young writers and researchers in the burgeoning field of "free-market environmentalism." His essays in the *Washington Times*, the *Wall Street Journal*, and other publications have provided a sober presentation of the facts surrounding environmental issues.

In *Environmentalism at the Crossroads*, Adler sets out to dissect the modern environmentalist movement and its leading organizations. He traces environmentalism from its origins in the nineteenth century, to its transformation with the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

first Earth Day in 1971, to the massive lobbying and propaganda machine that it has now become. Adler points out that the modern movement has roots in two different nineteenth-century perspectives on the natural environment—conservationism and preservationism. He argues: "While conservation is typically defined as saving resources for human use, preservation seeks to save resources from human use." Until the 1960s and '70s, it was the conservationist ethic that guided most of the thinking among those concerned about the environment.

Like other movements, environmentalism became radicalized in the 1960s. This transformed its ethic from "humanistic" conservationism to "putting-nature-first" preservationism. After the first Earth Day, most environmental groups, including those like the traditionally conservationist Audubon Society, were taken over and radicalized. In the years since, the environmentalist movement, through the strategic use of propaganda and special interest politics, has been able to bring together literally hundreds of millions of dollars in corporate, private, and government funding to affect public policy. The ensuing regulation and legislation have dramatically changed the way all of us consume, do business, and live our lives.

Adler's book leads the reader to a striking conclusion: in spite of its radical nature, the environmentalist movement has been able to capture most of the "power elite" in this country and—through the United Nations—the world. This includes both political parties (the most intrusive environmental regulations were passed and signed during the Reagan and Bush administrations); large corporations and foundations (ARCO, Chevron, Apple Computer, IBM, Eastman Kodak, the Ford Foundation, and others jointly contribute millions annually); and the educational establishment (environmental advocacy is part of the official curriculum in most public schools).

A further conclusion that can be reached is that all this power is being amassed and exercised to subvert both sound science and capitalism. The M.O. has been for environmental groups to publish and promote pseudo-science, concluding that the earth is in some imminent danger (global warming, ozone depletion, health risks) caused by some byproduct or input of capitalist production (carbon dioxide, chlorofluorocarbons, alar). Both the media and Congress unquestioningly buy into the hysteria. Such support generates large contributions to the crusading environmental groups and, ultimately, socialistic legislation meant to curb capitalist excesses. This is what makes the movement so dangerous. It has become a significant threat to both scientific integrity and individual liberty.

It is also worth noting that Adler's book is an important resource. The last third of the book consists of 22 appendices that detail the revenues and expenditures of the world's leading environmental groups. Organizations with annual revenues of 20 to 40 million dollars are common. The research in these appendices alone makes the book a worthwhile addition to anyone's policy library. □

Dr. Cordato is the Lundy Professor at Campbell University in Buies Creek, North Carolina.

The Just Society

Edited by Ellen Frankel Paul, Fred D. Miller, Jr., and Jeffrey Paul

Cambridge University Press • 1995 • 329 pages • $21.95 paperback

Reviewed by Ronald H. Nash

Whenever one comes upon a university press book containing multiple essays by different authors, all of them academics, it's a pretty safe bet that the book will never appear on any bestseller list. In the case of this book, most of the authors are professors of philosophy and their stated purpose is to throw some light upon social justice.

Another safe bet is that the essays will typically defend some liberal/statist/collectivist position: call it trickle-down Marxism. While the notion of justice is vitally important, its vagueness and the emotions it generates make it a convenient tool for liberals to use in their unending effort to enhance the power and size of coercive government. A number of chapters in this book do just that, occasionally in new and clever ways. Most readers of *The Freeman*, however, will be interested in the chapters that refuse to follow the prevailing statist orthodoxy of the day.

Perhaps the most interesting chapter in the book is titled "Designing Democratic Institutions and the Problem of Evil: A Liberal Chinese Perspective," authored by Baogang He, a Chinese scholar now lecturing in political science at an Australian university. The word "liberal" in his title refers to the classical Western tradition of personal freedom and limited government

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

(with special reference to John Locke and James Madison), not the monstrosity known as contemporary American liberalism. Professor He shows how the classical liberal tradition of the West with its emphasis upon property rights and limited government is influencing some scholars in the People's Republic of China. The author identifies some of these scholars and lists their publications. He also makes special reference to an ongoing dispute within the PRC over the question of whether Chinese political thought should assume the perfectibility of human nature and the goodness of China's political leaders (a basic assumption underlying Mao's position) or whether all citizens, especially those holding political power, are evil. Such American founding fathers as Madison and John Adams, of course, held the latter view which entailed for them the conviction that political power ought to be widely diffused to make it difficult for evil men to attain total power. I especially commend this chapter to my *Freeman* audience.

On the statist side of the ledger, Larry Temkin, a philosopher at Rice University, finds the typical egalitarianism of the recent past too tepid for his taste. American political and social thought is replete with egalitarians committed to reducing inequalities between A and B when these two people were members of the same society. But egalitarians like Temkin are also anxious about inequalities between A and B when they belong to different nations or to different generations. As egalitarianism expands in scope, it is obvious that the size and power of the state must also expand, even perhaps to the point where it encompasses a one-world government.

It is interesting to see how few of the essays in this book about justice take the time to define "justice." It is difficult to find much attention given to Aristotle's intuition that justice means treating equals equally and treating unequals unequally. It is also difficult to find authors in this book who understand the essential difference between voluntary human societies and states that must by their very nature claim a monopoly on the use of coercive power.

Readers of *The Freeman* interested in knowing what philosophers are up to these days may want to take a look at this collection, even though many of them will end up objecting to a great deal that they encounter. □

Dr. Nash is professor of philosophy at Reformed Theological Seminary and the author of Why the Left is Not Right: The Religious Left in America *(Zondervan Publishing House).*

Principle & Interest: Thomas Jefferson and the Problem of Debt

by Herbert E. Sloan

Oxford University Press • 1995 • viii + 377 pages • $45.00

Reviewed by Douglas E. French

In his History of Economics classes, Murray Rothbard told us that it was important not just to study what policies and theories held sway during the past, but to examine why certain economists or politicians advocated the policies they did.

Principle & Interest: Thomas Jefferson and the Problem of Debt by Herbert E. Sloan is a book that does just that. As today's politicians talk about balancing the budget and reducing the debt, Jefferson's name is often invoked as the standard bearer for a frugal government and sound money. But why?

Professor Sloan's story begins in 1788 while Jefferson was the American minister to France. Although one of the wealthiest men in Virginia (on paper), Jefferson had accumulated enormous debts, including a significant debt stemming from his late wife Martha's inheritance. Martha's father, John Wayles, died in 1773 with a considerable estate that was encumbered by considerable debt.

The Wayles heirs decided to divide up the estate's land and slaves among themselves, and sell off some property to reduce the debt. "[T]heir decision," Sloan writes, "which seemed appropriate given the circumstances in 1773 and 1774, was to have significant consequences for Jefferson. . . ." Had the Wayles estate been kept together, only the estate's assets could be looked to for repayment. But since the estate was divided between Jefferson and his two brothers-in-law, the estate's liability extended to their own estates. With the Virginia economy depressed, the cash flow from tobacco sales fell far short of that needed to retire the Wayles debt.

Compounding the problem, the Wayles executors accepted bonds from the purchasers of the land they sold. They attempted to use these bonds as payment for the estate's debts. The estate's creditor, Evans, Farell, and Jones, wisely refused, requiring payment in British Sterling. The purchasers of the properties then took advantage of Virginia's legal tender act to repay the bonds in heavily depreciated paper money.

The Virginia Gentry, as Sloan refers to them,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

hated paper money as much as the heavy burden of debt. Prominent Virginia creditor Richard Henry Lee echoed George Washington's view: "The vast sums of paper money that have been issued and the consequent depreciation, has well nigh effected an entire transfer of my estate to my tenants. This year Sir, the rents of 4000 acres of fine Land will not buy me 20 barrels of Corn!"

The oppression that Jefferson felt by his inherited debt no doubt shaped his view that the earth belonged to the living. He didn't believe that a previous generation should burden the next with either the slavery of debt or its laws and regulations. Jefferson formulated the idea that a generation lasted 19 years. Thus, Jefferson wrote that, "every constitution . . . and every law, naturally expires at the end of 19 years."

Statists have used these writings to bolster the argument for a living constitution. But Sloan makes it clear that Jefferson's concern was not that future politicians be given the latitude to bind the populace with more and more laws and regulations, but rather that Jefferson feared future generations would be saddled with debt, whether public or private, and the taxes that go along with it. And further, as Sloan writes, "public debts are closely associated with the evils of war: Remove the ability to contract debts that run for generations, Jefferson says, and 'it would bridle the spirit of war.' "

Sloan spends few pages addressing Jefferson's years as president, perhaps because this ground has been thoroughly covered by others. It's important to note that by the end of his first term in 1804, Jefferson had reduced the federal debt by $12 million. And, with the end of the country's debt in sight, Jefferson began to talk about spending surplus money on "the improvements of roads, canals, rivers, education, and other great foundations of prosperity and union."

The national debt stood at $57 million in 1809, and Jefferson predicted that his successor, James Madison, would extinguish the debt during his term. Unfortunately the War of 1812 got in the way, and the debt ballooned over $127 million by the war's end.

Jefferson never lived to see his dream of no government debt fulfilled. Andrew Jackson accomplished the feat in 1836. But the respite was brief. Martin Van Buren, Jackson's successor, resorted to loans the very next year because of deficits caused by the Panic of 1837. The U.S. government has not been out of debt since. □

Mr. French is a vice president in commercial real estate lending for a bank in Las Vegas, Nevada.

Taking Responsibility: Self-Reliance and the Accountable Life

by Nathaniel Branden

Simon & Schuster • 1996 • 233 pages • $22.00

Reviewed by Russell Madden

"Responsibility" is a favorite buzzword on the current political scene. Yet even many conservatives have a faulty notion of what the concept actually entails. In his latest book, psychologist Nathaniel Branden sets forth a sound approach to this critical issue. While much of what Branden says will be familiar to readers of his previous books, this volume may bring these ideas to the attention of a wider audience and, perhaps, focus debate on the implications of fully accepting self-responsibility.

For *Freeman* regulars, chapters 2 through 4 and 7 and 8 may be of most interest. In those sections, Branden deals more directly with political and economic issues.

Chapter 2, "Freedom and Responsibility," shows what does and does not fall within one's realm of personal responsibility and what can occur when that boundary is breached. Branden also touches on Marxist determinism, demonstrating its self-contradictory nature and what happens when politics and law fail to reject this erroneous principle.

In Chapter 3, "Self-Reliance and Social Metaphysics," Branden explores the ways in which people come to rely on the judgments of other people rather than their own independent thoughts. While many of these individuals are distressingly obedient to authority, some seek power over others in vain attempts to substitute control over others for the self-control they lack. The most egregious examples of such "social metaphysicians" have been the dictators who have plagued us throughout this century.

Chapter 4, "A Self-Responsible Life," advocates the idea that "we are not entitled to treat other human beings as means to our ends, just as we are not means to their ends." Branden notes that "ours was the first government *ever* to recognize and affirm the inalienable rights of the individual. It upholds . . . the idea that the individual belongs not to the state or the nation or the society, but to him- or herself." Avoiding the initiation of force and respecting individual rights provide "the moral foundation of mutual respect, goodwill, and benevolence" that are the hallmarks of a free and decent society.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The recent emphasis on downsizing and corporate restructuring makes Chapter 7, "Accountability in Organizations," timely. Here Branden explains that fostering self-responsibility in a company must begin at the top of the organizational ladder. But employees should also work to better the company, not simply do the minimum to get by. When a difficulty occurs, workers should take it upon themselves to solve the problem and not just ensure no one blames them.

Finally, Chapter 8, "A Culture of Accountability," recognizes the fact that we must teach consequences, i.e., causes and effects, if we hope to raise a generation able to accept and handle the challenges freedom presents. Capitalism will survive only in a culture of self-responsibility. □

Mr. Madden is an instructor in communication at Mt. Mercy College in Cedar Rapids, Iowa.

The State of Humanity

Edited by Julian L. Simon

Blackwell Publishers • 1995 • 608 pages • $54.95 cloth; $22.95 paperback

Reviewed by Walter Block

If you are one of those persons whose intellectual style can be summarized by the motto "Don't confuse me with the facts," then you won't like this book one bit. On the other hand, if you think that facts, evidence, and history can contribute to our understanding of where mankind has been and where it is likely to go, then *The State of Humanity* is the book for you.

The thesis of this book is that the lot of humanity has been improving in the last few centuries, decades, and years, and that the most likely prospect is for more of the same. This idea should occasion no surprise given the book was edited by Julian Simon. Professor Simon is perhaps the most careful, sophisticated, and productive critic of modern-day Malthusians. Even overshadowing his scholarly output is the bet for $10,000 he won from Paul (*The Population Bomb*) Ehrlich, over whether resources are becoming more plentiful (yes!) or scarce (no!) relative to our population. The point is that if anything like economic freedom prevails, and the *Ultimate Resource*—man's mind—is thus allowed free rein, this planet can support far more people than presently living.

In order to make this point, Simon marshals the work of no fewer than 58 separate authors. These chapters address six different aspects of the issue: life, death, and health; standard of living, productivity, and poverty; natural resources; agriculture, food, land, and water; pollution and the environment; and the contribution of public and media opinion to the environmental crisis. To summarize: the infant mortality rate is declining, length of life is increasing, the number of people required to grow food is falling, food and natural resources are becoming more available, at a lower price, the standard of living is improving, pollution is decreasing.

But Simon is no simplistic Pollyanna. Instead, his analysis (and that of his colleagues) is backed up by a veritable gold mine of information. On practically every page there is a chart, or a diagram, either an increasing curve (for good things, e.g., life expectancy), or a decreasing curve (for bad things, e.g., pollution). The overall impression is one of complete, total, and even exhaustive coverage. This book is an encyclopedia of the case against the chicken littles of the world.

Let me give but a few examples, first, to attest to the authors' consummate mastery of this material, and second, to bring aid and comfort to those taken in by the alarmists. In 1490, corn yield was ten bushels per acre; in 1980 it had reached 120. In 1895, some 20 million acre-feet of water was stored in all U.S. reservoirs; in 1985 this number was in excess of 400 million acre-feet. In the year 8000 B.C., life expectancy at birth was about 21 years; this rose to the mid-30s in the sixteenth century, to the 60s in the nineteenth century, and now exceeds 70 years. Free time rose by six hours per week between 1965 and 1985.

As might be expected in such a large work, there are one or two jarring notes to which the hypersensitive reader may object. One author, Robert Nelson, takes pride in the fact that acreage in public parks has been increasing; in my own view, enlarged governmental participation in the economy in any regard is cause for alarm not gratification. But to be fair, Nelson was concerned with access to outdoor recreation, not its ownership.

If you are concerned with improving the livability of the planet, *buy this book*! Mass purchases, true, will mean the death of many trees. But this will just raise the price of pulp, calling forth yet additional supplies. With *The State of Humanity* at hand, you will have the facts of the environmental debate at your command—just about all of them. □

Dr. Block is a professor of economics at the College of the Holy Cross.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Now Available in Hardcover!

THE CLASSIC BLUEPRINT FOR A JUST SOCIETY

THE LAW

BY FREDERIC BASTIAT

New Introduction by
SHELDON RICHMAN

"A classic no educated person should miss."
— Mary Pride, author of *The Big Book of Home Learning*

Published in the last year of his brief, embattled life, *THE LAW* is Bastiat's most famous work—and justly so. A masterpiece of style, brevity and common sense, *THE LAW* concisely presents the classic moral case for liberty and limited government. With persuasive power and enduring impact, it ranks with the great essays of John Stuart Mill and Thomas Paine. For more than a century, *THE LAW* has been changing the thinking of thousands about the relationship of man and state. Here again is Frederic Bastiat's ringing challenge to the dominant political forces of his day. And our own.

FREDERIC BASTIAT (1801–1850) was a French economist, statesman and writer. His uncompromising defenses of free trade, the market economy and individual liberty pitted him against politicians both right and left. His writings include *Economic Sophisms*, which championed free trade, *Economic Harmonies*, a treatise on economic principles, plus a host of essays, including "The State," and "What Is Seen and What Is Not Seen." To this day, his witty aphorisms and incisive arguments are quoted by public figures, speakers, and writers everywhere.

"...a great prophet of liberty, the free society, and the free market."
— Vaclav Klaus, The Czech Republic

90 pages with index, $12.95 hardcover (quantity discounts available)

Please send check or money order to:
FEE, 30 South Broadway, Irvington-on-Hudson, NY 10533 (Add $3.00 for postage)
Visa and MasterCard orders: 1-800-452-3518
(Also available from FEE: Bastiat's *Economic Sophisms* and *Economic Harmonies*)

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"It is of the essence of the demand for equality before the law that people should be treated alike in spite of the fact that they are different."

—F. A. Hayek (1960)

THE FOUNDATION FOR
ECONOMIC EDUCATION, INC.
30 South Broadway
Irvington-on-Hudson, NY 10533

Non-profit organization
U.S. POSTAGE
PAID
Foundation for
Economic Education, Inc.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED